JPRS 75995

7 July 1980

East Europe Report

ECONOMIC AND INDUSTRIAL AFFAIRS

No. 2021

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PREMISES OF EEC-CEMA ECONOMIC-TRADE RELATIONS DISCUSSED

Warsaw SPRAWY MIEDZYNARODOWE in Polish No 2, Feb 80 pp 63-78

[Article by Prof John Pinder, Director of the Institute of Political Studies in London: "Premises of Relations Between EEC and CEMA"]

[Text] General trade negotiations between the member states of EEC and CEMA proceeded regularly up to 1972. Since then no negotiations of this type have taken place, either between particular countries or between both groupings. One result of this is the fact that "a state of non-communication reigns" in EEC-CEMA relations.[1] However, the reality is less dramatic. The Community participates in GATT negotiations, members of which include the majority of European CEMA states. Agreements referring to such products as textiles and steel have been concluded with some CEMA states. The community permits imports from the GDR. Member states of the Community have come to understandings with CEMA states on cooperation concerning economic matters not covered by the joint trade policy of the Community (EEC). Anyway the majority of economic negotiations between East and West have always taken place between the trade authorities of the socialist states and western enterprises, and not between particular governments, and this policy is continuing. Here we could demonstrate that in many cases general trade negotiations were a formality devoid of any major practical significance, and that trade exchange is still increasing despite the cessation of negotiations. It would be unreasonable to attribute this lack of general negotiations to diplomatic difficulties alone. It is not worth debating whether regional integration can have major consequences for relations between these two groupings or can intensify the problems which cause partners to seek changes in trade policy by means of negotiation. Finally, does economic integration cause the process of negotiation to become more difficult? Powerful economic and political forces are evinced in integration. Therefore it would be strange if they did not affect relations between integrated groups.

Growing Need for Negotiations Between Modern Economies

In 1776 Adam Smith wrote that the greatest improvement in work productivity, the greatest experience, judgment and reason, with which it can be directed and exploited, seem to be the result of the division of labor. Since the power of exchange exerts an increasing effect on the division of labor, the scope of this division must always be determined by the magnitude of this power or, in other words, by the size of the market.[2] It is rarely possible to define a factor so tersely, in two sentences, a factor which has been of central importance in the development of the world for more than 2 centuries. Since the time these sentences were published, the need for a larger market has never ended, including the need to assure access to the markets in other countries, and finally to assure economic integration for the purpose of "streamlining the international division of labor."[3] The more dependent some countries become on access to the markets of other states or on economic integration with them, the more likely it is that they will carry on negotiations on the subject of the policy influencing these markets.

To a greater or lesser degree all modern economies are dependent on trade with other countries. This degree differs as a function of the "size" of the national market, that is, its population and economic potential. Some of the smaller European countries, such as Belgium, Hungary and the Netherlands, export half or more of their gross national income. This share comes to a level of 1/5 to 1/3 in the economies of medium size, such as Great Britain, France, FRG or Italy. This magnitude amounts to approximately 1/10 for the large economies like the EEC, Japan, the USSR and the United States.

Obviously there are qualitative differences. The technological level in Japan or Western Europe depends to a large degree on their exports, which are mainly exports of finished products. In turn, exports and technological level depend on imports of material. Technological progress in the Soviet Union and Eastern Europe depends on imports of equipment. In the case of the United States, the use of the dollar and the conduct of investments in international corporations are of greater importance. At any rate the fact is that the dependence of the small states of Western and Eastern Europe on trade up to now has been very great, that of the medium-sized Western European states great, that of the EEC and Japan fairly great, although more for qualitative than quantitative reasons, and that of the USSR and the United States is lower, although it is still significant. The need of particular countries to affect the economic policy of their partners corresponds to this differentiation.

Adam Smith wrote of the "improvement" of productivity, presuming dynamic progress. However, it must be recognized that it is more the Marxist authors than the liberal ones who have described the consequences of integration.[4] What they call the scientific-technological revolution is a constantly expanding need for the division of labor, specialization and production on a large scale, and thus a dependence of modern economy on trade. As a consequence the need for some countries to affect the policy of others will increase. This process may occur very rapidly. Before the recession which took place in the middle of the 1970's, the normal rate of growth in the gross national income (GDP) amounted to 4-5 percent annually, and both world trade and East-West exchange increased by 8-10 percent annually. At this rate of growth dependence on trade doubled in the course of 14 years: the medium-sized European countries exporting 20 percent of their GDP in 1960 will export 40 percent of it in 1974, and the Eastern European countries exporting 5 percent of their GDP to the EEC in 1960 will export 10 percent in 1974. Mutual trade between EEC members increased by approximately 20 percent annually in the 1960's and, at this rate of growth, mutual dependence on trade doubles in as little as 7 years. Essentially the value of trade within the Community increased to 1/10 of the gross income of the EEC.

The scientific-technological revolution also has an effect in another very essential direction. While it was possible to have a free trade system in the economy of the early period of the industrial revolution, the complex economy of today with its deficient markets and intricately connected parts requires a much more comprehensive sort of management. Marxists have predicted that this inevitably will lead to replacement of capitalism by a collective economic system, but this process has not yet ended in the more developed countries. If the idea of an abrupt or violent replacement of capitalism by collectivism is replaced by the idea of adaptation of the economic policy to the changing level of technology, then Marx's idea on the subject of contacts between the level and the economic system proves to be very accurate here. Since the rise in the economic level in the capitalistic countries has led to greater interventionism in economic policy on both the micro and the macro levels, the influence of the policy of a given country on the exports of its partners has also increased, and then a need has arisen for mutual influence by partners on the policy of each of them. In the case of political pressure, characteristic of many microeconomic policies, the task of affecting these policies is probably becoming more difficult.

The complexity of the contemporary economies of the CEMA countries, with their higher technological level, requires a more decentralized form of management. This has been the major direction of policy adjustment in all CEMA countries. However, the decisive effect on the amounts, direction and structure of foreign trade is still controlled by planning by directive, and therefore the effect of planned decisions on countries dependent on trade with centralized economy states is very great.

Two effects of the scientific-technological revolution, growing dependence on trade and complex political systems, have considerably increased the need for holding negotiations on the subject of affecting the policy of trade partners. In connection with the necessity of trade dependence, national policies have also become subordinate to the growing pressure on the part of foreign economic forces. At a certain point in mutual trade dependence, economic relations between two or more countries can be defined as economic integration, and the consistent process of negotiation on the subject of policy, at a certain point in the increasing scale of negotiations, could be called political integration. The term "integration" has always been used, maybe too pragmatically, whenever institutions have been established for the purpose of facilitating political integration and negotiation, especially in the EEC and CEMA.

The quality of relations within a group of partner countries depends on their individual economic levels, systems and degree of dependence or interdependence of their economies. The European Community is composed of countries with very similar economic systems and levels and with a high degree of interdependence. In this case it is obvious that the smaller countries are more dependent on their partners than the larger ones are. At any rate, despite the large economic potential of the FRG there is no dominant force in this group. At the same time Western Europe as a whole includes smaller, peripheral countries, unilaterally dependent on the Community, which is not dependent on them. The East European CEMA countries depend to a large degree on both the Soviet Union and Eastern Europe. Some states send them 1/10 of their gross national product. (This is an amount close to the mean trade interdependence of the EEC countries). However, their economic levels are generally closer to the USSR level. These countries also have the same economic system as the Soviet Union. All of these things, along with political and defensive connections, enable political integration within the framework of CEMA, but check negotiations with the Community.

With respect to economic potential, the countries of the Community are not as much weaker than the United States as the Eastern European countries are weaker than the Soviet Union. The Community as a whole attains the level of the American GDP, while the Eastern European countries together attain only half of the Soviet GDP. The Community exports only approximately 2 percent of its GDP to the United States, or much less than the Eastern European countries export to the USSR. In addition the political integration of the Community permits it to vie in trade policy with the United States, while the countries of Eastern Europe have no separate institutions needed for this. In turn we must not forget about the strength of American corporations, the dollar as international currency, and above all the defense connections. Still, despite the predominance of the United States in many fields, there is a rather significant economic interdependence between the United States and the EEC.

In East-West relations the economic contacts between the United States and the USSR are quite weak. On the other hand there is a significant economic interdependence between the EEC and the USSR. Each of these parties exports 1-2 percent of its GDP to the other, with equivalent imports being of great importance to the Soviet party from the viewpoint of technological development, and to the Community from the viewpoint of supplies of crude oil and other raw materials. (However, the strategic superiority of the USSR leads to a connection between the defense policy of Western Europe and the United States, and not with the USSR). It can be expected that these relations, even if they are dependent on political systems and policy, will expand with economic growth and technological progress, but will probably not be very important in coming years. In economic relations between East and West, the most advanced sector and at the same time the greatest problem is trade between the countries of Eastern Europe and the Community. This is because it expresses a unilateral dependence of Eastern Europe on the Community. Differences in levels and economic systems and policies make it much more difficult to facilitate negotiations in this trade than is usual, even under unilateral relations.

Problems for Negotiation

If the economic and political systems were adjusted to technological progress immediately, smoothly and in an optimum manner, the policy of economic partners could be adjusted so as to maximize mutual prosperity. However, this is still a long way off. Even if changes in the technological level, economic system, economic integration, political integration and its institutions are mutually interdependent, this interdependence is slight, and a long time may pass before there is mutual adjustment.

The uneven diffusion of technology throughout the world caused problems, both in East-West relations and in other relations as well. Lower priced imports from Eastern countries were able to cause so-called market disruption in the West, while the governments of the Eastern countries could imagine that technological superiority gave their Western partners greater bargaining power, even if systems with a centralized policy maximize the negotiating power of the East. Although the CEMA states are developing somewhat faster than the Community, it will take a long time before the lack of equilibrium and the problems caused by it are overcome.

The difference in economic systems causes greater difficulties. One of the problems is that none of the systems has adjusted to deal effectively with the management of an economy whose nature has changed so much in the course of less than 25 years. Widespread economic stagflation is evident in the West. A return to a simpler economic policy, concentrating on the influx of money, presents some hope of overcoming it, but this trend is more apparent in a microeconomic policy with respect to the working force, industry, regions and income, reflecting the imperfection of the markets in modern complex economies. In the East we can observe the phenomenon of inefficiency on a micro scale, caused by the excess economic administration, and by a simultaneous tendency to use market mechanisms as an instrument of planning. Both stagflation and strict centralization cause difficulties in international trade.

However, particular problems are caused in negotiations by differences between the systems. In principle, in return for access to its markets, a Western country can demand an equivalent adjustment in the plan of an Eastern country. In practise, however, not much has been accomplished here. For Western countries the trade negotiations end with a feeling of steps in the direction of trade liberalization which they were inclined to accept one way or another, even without tangible concessions from the Eastern party. This unquestionably happens partly because the Western governments have lacked the imagination to foresee what they can ask the Eastern partners in return for trade liberalization. On the other hand it is partly because Eastern governments have not taken the matter of reciprocity seriously, not appreciating the fact that if they are not ready to give a lot, they will probably not receive a great deal. It is also more difficult to agree on an equivalent plan adjustment for a given customs reduction than on one equivalent customs reduction for another. The asymmetry in the two systems, where enterprises in one negotiate independently of governments while enterprises in the other and their public authorities negotiate as a single party, also complicates the matter of reciprocity. There is a sphere of negotiation, understandings on specialization or industrial cooperation, which suits the policy trend of both sides. However, the difference between the systems remains a substantial obstacle to adjusting their policies to the benefit of East-West trade.

Since the "market area" continues to expand beyond the territory of a national state, contradiction is deepening in each system between the range of economic reality and the limits of political authority on the one hand and economic integration and national sovereignty on the other. In principle it can be neutralized by negotiations between governments. In practise, however, internal pressures on governments are stronger than the influence of trade partners. National policies are not sufficiently adjusted to the needs of international economy, finally causing losses to all who participate in international cooperation. This particularly involves the group in which there are no dominant members, where there is no external source of political strength which could counter the forces of internal pressures. In a group which has a dominant member, the policies of the dependent members can be too strongly adjusted to the needs of the dominant country. Sometimes the dominant member, in order to maintain the system, gives its dependent partners more than could be explained by the division of goods. At any rate it is difficult to achieve an optimal division of goods between a dominant country and dependent countries. These problems are without significance when dependence on trade is small. However, with a rapidly increasing division of labor and economic integration, losses arising as a result of a decentralized policy of coordinate partners or lack of adjustment in policy in relations between a dominant country and dependent countries can quickly become exorbitant and finally intolerable. Gunnar Myrdal had decentralized forces in mind when he predicted that national integration, by which he understood national planning and a policy of prosperity, causes international disintegration.[5]

It has been proven that Myrdal was in error, at least with respect to industrialized countries in the 1950's and 1960's. National integration did not undermine the international economy. This was partly the result of technological progress which exerted strong pressure in the direction of international economic integration and partly the result of establishing institutions stimulating and supporting economic integration through international political integration.

Integrated Groupings

After World War II the United States occupied the dominant position in the world economy and used it to establish the Bretton Woods system for negative integration; to remove barriers and restrictions in trade. The main organizations in this system were GATT, General Agreement on Tariffs and Trade, the purpose of which was to reduce trade barriers, and the IMF, International Monetary Fund, which was to maintain the stability of convertible rates. Custom more than logic decrees that the term "integration" not be used to define the essential effect of these international institutions on policy, an effect reinforced by other organisms such as OECD [Organization for Economic Co-operation and Development] and the Bank for International Settlements (BIS).

Since the late 1960's the Western system of political integration has been subject to increasing overwork. The reason for this is the fact that the concept of negative integration is no longer reflected in the internal problems and policies of the market economy. Stagflation cannot be cured by a macroeconomic policy alone, because important microeconomic policies have been developed with respect to industry, the working force, income and so on. The more flexible principles of the IMF and the new GATT codes with respect to subsidies and general provision produced different reactions to this problem. However, international political integration has not kept pace with the development of national policies, to say nothing of the economic problems of the 1970's.

The uncertain state of political integration was also reflected by the drop in the economic domination of the United States. If we consider union with a defense policy, the United States can still dominate EEC and Japan. But in matters of trade, when this union is periodically reduced, the Community is equal to the United States and, together with Japan, is basically independent of America with respect to many economic matters. Therefore a reform of the Western system of political integration in the direction of adoption of modern political requirements does not depend on American leadership, but on the joint efforts of the United States, the Community and Japan. At any rate this cannot be achieved by operating according to the example of the old model of a "dominant member, dependent countries." Here the best example is the European Community, which has developed without a dominant member.

European Economic Community

The Community established a much more far-reaching system of integrated policy than the Bretton Woods system. The negative integration of the common market, although it does not differ in principle from the trade liberalism in GATT, is much more uncompromising. The Community also has joint instruments of policy (customs, taxes, guaranteed funds), by means of which it can introduce trade and agricultural policies, and many other policies which remain beyond the goals of trade liberalism and improvement in the negative integration market and institutions which are really much weaker than the institutions of national states, but stronger than almost all international organizations.

However, the Community, just like the more extensive Western system, had difficulty in the development of suitable policies keeping pace with the problems of the 1970's. National policies for many sectors of industry should be supplemented by the industrial policy of the Community on its level of industrial integration. The dependence of the economy of the EEC on crude oil from the Near East has demonstrated the need for a joint energy policy, in order to stimulate local production, conservation of energy and stabilization of relations with producers of crude. In addition international currency disturbances have emphasized the need of a Community policy which would promote the stability of currencies. However, despite a number of attempts made in this direction, not much has been achieved.

Plans for a currency unit were informative. When economic inconsistencies made it difficult to maintain the currency rates of the member states in the so-called currency [monetary] serpent, governments agreed to coordinate their national policies for the purpose of coordinating economic undertakings. However, efforts made for the purpose of coordinating policy produced little more than an exchange of information. This should not be surprising, since results were always similar whenever the Community tried to assure joint action with reference to really important currency matters, energy or industrial policy through coordination of the use of national policy instruments. Internal political pressures are stronger than the influence of the Community, which as a collective organization lacks an equivalent source of strength. If it had a dominant member, it would have means to induce or force other members to follow a consistent line of activity. But the lack of such a member in the Community, and the experience of the Western system as a whole and of CEMA indicate that the dominant member can inject many problems into a grouping. However, the Community has been able to achieve a joint policy when it was given its own source of strength in the form of instruments of trade and agricultural policy. In many publications[6] it has been proposed that member-states not be deprived of their own instruments, but that the instruments of Community policy could be formed parallel. The new European Currency System (ESW) guarantees the European Currency Fund, in which the member-states must deposit 1/5 of their reserves in gold and dollars for a period of 2 years, while the other 4/5 remain in their own central banks. But until this is realized, the ESW will remain another mechanism for convertible rates, dependent on economic concurrence achieved by national policy instruments.

Where economic integration has gone far enough to need political integration, which presents delicate political questions, an integrated grouping without a dominant member must assure its institutions of political instruments remaining beyond the exclusive control of the governments of the particular states. Experience shows that it is difficult to do this. Today it is a truism that no neo-functioning concept of transmission from one sector to another has materialized. Transferring authority or granting institutions of a group disposition over their own policy instruments requires political decisions, and the political role of the governments of the member-states is still much greater than that of the Community institutions. Since the time that the Community was granted its main authority and instruments on the basis of the original arrangements, scarcely any decisions of any significance have been adopted. Maybe the Marxist opinion that political expansion will match the economic base may apply here to support the transfer of authority in accord with the degree of economic integration. However, the Marxist theory, concentrating on opposition which hampers transformation in capitalism (with the faulty implication that such a transfer would be very easy wherever private ownership of the means of production had been done away with), does not help explain why such a transfer took place in the early postwar period. The member-states remitted to the Community customs duties, taxes and the agricultural funds, various other instruments and authority, not when opposition had disappeared, but when the confidence of the member-countries in the soundness of the formula of a national state had become shaky. This suggests that the theory of federalism, which refers to the transfer of authority from a state to institutions of a union, should be valid. Literature on the subject of federalism[7] defines the conditions under which such transfer can occur: similar economic and political systems, geographic proximity, previously acquired experience with joint institutions, hope of economic profit, external threats and so forth. But these conditions are very general and do not clearly indicate how and when such transfer of authority takes place. Since several important instruments have been transferred, the Community already disposes of some experimental material which may be useful in seeking answers to these questions. For the moment it is possible only to definitely say that a lack of assurance of instruments for the Community causes the political integration to be too weak to guarantee joint administration, which an integrated economy requires.

However, among the instruments which were transmitted to the Community level, there are a few of very great importance for joint economic policy. This then is direct proof of the effect of political integration on trade partners in an integrated grouping. Despite expectations, the common external customs duty was used by the Community in a completely liberal way, with certain exceptions in its application to countries of low income. It does not seem that separate tariffs by many member-countries could be used in a way more stimulating to trade. Experience with the joint agricultural policy almost vindicates Myrdal's fear that national integration (in this case the Community) can cause international disintegration. Agricultural lobbies, against the background of serious social problems stemming from the rapid drop in rural population, could rise in defense of the protectionist policy of the Community. With the existence of the practise of unanimous voting in the Council of Ministers, it is difficult to overcome the opposition of one inflexible government protecting the status quo, and the protectionist agricultural interests must get the support of at least one such government. The balance of power changed in favor of consumers (who have one inflexible government on their side since the expansion of the Community in 1973) and of industry, and therefore policy in the 1980's can undergo significant changes. It seems proper to interject that, if there are particularly difficult problems and internal pressures, not only will joint instruments be necessary, but also stronger Community institutions, if it is to attach due attention to general interests, such as the development of international trade.

Since an industrial policy has been used in European countries to meet the difficulties of the 1970's, efforts have been made to stimulate the industrial policy of the Community. However, Community use of any instruments of industrial policy is probably not as beneficial to trade as the use of joint customs duties. The problems are too difficult for these instruments to be sufficient. However, with the existing degree of integration of the Community market for industrial products, it seems unlikely that the EEC policy was worse for international trade than the competing policies of member governments. This is because the governments of the member-states will either grant subsidies, and thus protection for industries which are in trouble, or will cooperate on a base on which it is easiest to assure international understanding, that is, a shift of the burden of regulation to foreign suppliers. The role of the Commission in proposing policy for the steel and shipyard industries, along with protection of the reduction in productivity as a condition for protectionist support, showed that the Community as such could act better if it had at its disposal instruments permitting greater effectiveness of its policy.

It would be unreal to assume that integrated groupings at the stage which the Community has reached could be optimal trade partners. Institutions of the Community still provide particular governments representing specific interests a great deal of opportunity to block the general interests of the development of trade. Its instruments are not suitable to reinforce the policies which it is trying to stimulate. For trade partners this is a risk greater than is usually met in relations with a national state. But renationalization of trade policy, even if it were possible, would be even more unsatisfactory, and the current concentration of industrial policy in the hands of member governments will probably be less and less satisfactory as economic integration progresses. Since industrial integration with disintegrated industrial policies is not a combination capable of functioning, the industries covered by this shaky policy are probably also unsound, and therefore require protection. For the trade partners of a grouping, integration has its inconveniences. But no matter how ineffective such integration remains, since the grouping lacks necessary and strong institutions and instruments, the alternative of disintegrated policies is probably even more unsatisfactory.

Council of Economic Mutual Assistance

After World War II, the economies of the countries of Eastern Europe rapidly became integrated with the economy of the Soviet Union. The share of these countries in trade with Western Europe, which amounted to approximately two-thirds before the war, diminished by half. Their main trade partner became the Soviet Union. Since CEMA came into being in 1949 in the initial stage of integration, its institutions did not play any major role. In each national state political systems were strongly incorporated, and relations between the integrating economies were negotiated on a bilateral basis by the interested governments.

When industrialization in Eastern Europe plunged forward, an obvious need developed for greater specialization, and thus for economic integration. The idea of multilateral integration was considered in several Eastern European countries. The activity of CEMA institutions increased. But only after 1968 did the process of political integration really gain momentum. Here it should be added that because of its size the Soviet Union is less dependent on trade than the countries of Eastern Europe, and its interests in economic integration can be correspondingly less.

The aim of integration was expressed in the Comprehensive Program of development of integration of 1971.[8] In agreement with the instruments used in the system of direct planning, basic methods of integration recognized in the Comprehensive Program were negotiation of specialized agreements, within the framework of which investments and production in a given sector of industry are divided between two or more member countries, and coordination of plans. The Comprehensive Program included certain resolutions referring to shifts in the direction of convertibility of currencies and other market mechanisms, although this does not meet the systems of internal economic management in the majority of CEMA countries. The integration achieved in this field was not great. However, many specialized agreements were concluded, satisfying the needs of the countries of Eastern Europe in the area of greater specialization and large-scale production, not requiring them to resign all their power to political integration in the CEMA system. The actual effect of the coordination of plans on the plans of the member-countries is more difficult to assess. This partially reflects a lack of information on which such evaluations could be based. However, it seems apparent that major difficulties stand in the way of coordination, effective enough to tangibly change the form of these plans.

The process of integration within the framework of CEMA can have specific implications for trade with the Community. For example, if production in some industrial sector becomes an object of a specialized agreement with CEMA, this can prevent CEMA member countries from importing these products from Community enterprises. A change in the method of production introduced into the Community by a supplier can require agreement from all parties in the specialized understanding, and thus CEMA as a group. Although the consequences of CEMA integration can be incorporated in a manner increasing the need for negotiations between the two integrated groupings, such negotiations would increase existing problems because of the asymmetry in the political structures of the groupings. These problems could be eliminated if CEMA would interpret its own negotiating policy as a group and limit negotiations to cases where its internal integration particularly requires external negotiations, or where the CEMA functions are conducted unanimously according to general principles.

Prospects of Relations Between CEMA and EEC

It is certain that many of the conclusions expressed here on the subject of CEMA and EEC will be questioned. But there must certainly be agreement on one point: there are many difficulties standing in the way of economically optimal relations between these groupings. These are: different economic systems and levels; problems in adjusting each system to satisfy the needs of modern economy, and therefore the most effective division of labor; ideological and political conflict between the West and the East; and problems of implementing institutions and instruments of political integration which would meet the political and economic conditions of the member-countries in each grouping and also match the relations with countries and groups from outside these organizations. The majority of difficulties stem rather from economic and political differences than from the unique situation in the integrated groupings, but the groupings do add one more difficulty to an already complicated situation. Even if Myrdal was wrong in expecting national integration (or to expand his thesis, regional integration)to causedisintegration in the Western or Eastern system, he still may have been right with respect to the impact of regional integration on relations between East and West in Europe. The author is not capable of presenting answers to these questions, and the analysis above merely defines some conditions on which this impact may depend.

The evolution of every system in the direction of satisfying contemporary economic needs should improve relations between systems, while the impossibility of development of systems should render them difficult. Interdependence has reached a point where an economic crisis or adversity fo one party can cause material losses to a second party, for whom an ideological Schadenfreude does not constitute suitable compensation. In addition the evolution of political systems probably expands the bases of collaboration by making it easier to achieve reciprocity in negotiations, and then tangible political changes which will be mutually advantageous.

In particular the development of a microeconomic policy for the organization of industrial and trade markets in the Community can induce the Soviet Union to negotiate with it. At the present time a predominant part of Soviet exports, natural raw materials, does not meet any obstacles in entering the Community market, and other exports, mainly industrial product products, are affected only by very low customs duties. The development of a microeconomic and sector policy would give the Soviet Union more occasion to negotiate, simultaneously placing in front of the Community specific industrial goals which could create stronger motivation for it to negotiate with CEMA countries. In turn the development of market mechanisms in the CEMA countries could also stimulate the Western party to negotiations, as was shown by the acceptance of the Hungarian tariff in GATT as an important policy instrument. Along with changes in policy which would introduce greater content into the negotiations, the development of science, which has implemented various technologies of industrial cooperation in East-West economic relations in the past decade, will certainly continue to develop new methods of promoting negotiations despite the differences between the systems.

Political integration within the framework of EEC has been criticized often and severely by Eastern observers. A particular object of reproach was the effect of political integration on the external relations of the Community. While some charges can obviously be supported, a general criticism of political integration cannot be justified. Where economic integration is advancing as rapidly as in the majority of industrial sectors of the Community, an impossibility of complementing it by political integration would lead to difficulty in these sectors, and this in turn would cause trouble, not only in the Community, but also among trade partners. Since a grouping without a dominant member must have joint policy instruments, if the political integration is to be effective, the member-countries must agree to provide the grouping with instruments embracing the sectors in which economic integration is particularly advanced. It may seem paradoxical to the trade partners of the Community that their problems will be greater if the Community does not acquire suitable instruments than if it does acquire them. As the example of agriculture shows, weak institutions based on unanimity among national ministers tend more to protectionist policy than do the strong institutions of the Community based on a greater role of the Commission and Parliament, and majority voting of ministers. However, the fact that member governments can continue to oppose strengthening of Community instruments and institutions, as has often happened in the past, is an alarming perspective.

Along with the growth in interdependence within the framework of the entire Western system, there will also be a need for political integration of this system as a whole. This places the trade partners of the West before a dilemma similar to that which integration in the Community causes: political integration and the transmission of policy instruments to the level of the grouping causes specific problems for trade partners, but the inability to integrate policies and to transfer instruments causes problems whose effect on trade partners would probably be even worse. Here the Western governments also will surely be too slow, and not too fast, to use the logic of political integration.

Within the framework of CEMA the ad hoc method of political integration represented by many understandings on specialization under given conditions can be better, even if it does not provide the member-countries with the advantages which should be gained because of economic integration. An external consequence of this would be a joint external position of the grouping only in those fields in which the member-countries are associated by an understanding on specialization, which does not permit them to have individual negotiations on this subject. However, there are no signs indicating that the member countries define the CEMA role in negotiations so strictly, and do not seem ready to consider the idea of integration of subgroups of Eastern European countries which would enable more thorough integration among the members of a subgroup, along with a joint subgroup policy respecting the EEC.

Therefore it seems that neither the East nor the West has the condition for an optimal method and degree of political integration. But it is necessary to live in a sub-optimal political reality and find a form of negotiations which could be better exploited. Negotiations between EEC and CEMA could include three channels which were proposed by CEMA: grouping with grouping, member-country from one side and grouping from the other, member-country from one side and member-country from the other side, under the condition that CEMA first defines the area of responsibility of a grouping in a method which reflects the real situation of its economic integration and political structure.

Integrated European Groupings and the World Economic System

Obviously it is difficult for Europeans to adjust political institutions to the needs of their integrating economies, and this causes every kind of difficulty for the national economies, the integrated groupings and relations between them. The scientific-technological revolution is developing faster than political institutions on either side of the European ideological division. With respect to East-West relations, the greatest problem is the countries of Eastern Europe, which really need changes in the Community policy, but which lack effective means of obtaining them. This is because dependence on trade will continue to rise, even in the case of such large economies as the Community and the Soviet Union, and they will also suffer losses if satisfactory relations are not established between them.

It is not only the Europeans who suffer because of the fact that the political structures on the continent remain so far behind technological development. The rest of the world is losing trade opportunities because of imperfect European undertakings. Earlier analyses have shown that economic integration and the consistent need for political integration are derived from the scientific-technological revolution which is a worldwide phenomenon. Integrated groupings have arisen in various places and this process will continue. Up to now Europeans have the greatest need for integration, because many of them live in small or medium-sized states with a high level of development. Their experience with respect to political integration is correspondingly great. If they continue to develop suitable methods, instruments and institutions of political integration, their experience will certainly be used by other small and medium-sized countries with a growing level of technology, and even by countries like the United States and Japan whose level is so high that they have become irrevocably interdependent with a large number of other countries and groupings.

However, if it turns out that the European experience is not an example for others (with the exception of an example of what not to do), this will still be an example of relations between integrated groupings. Since economic integration occurs in various parts of the world, the number of groupings is increasing, and their members will have to consider what relations to maintain with foreign states and how to establish relations between groupings as such. European integrated groupings will only provide a positive example if they develop a suitable model of negotiation through the three channels mentioned above, using market instruments and directive economy in every channel. If this is successful, Europeans would offer the world a general model of relations between integrated groupings which could help the international economy turn from its rocky road in the direction of world economic integration and finally, in the distant future, to world political integration.

FOOTNOTES

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8. Kompleksowy program dalszego poglebiania i doskonalenia wspolpracy i rozwoju socjalistycznej integracji gospodarczej krajow czlonkowskich RWPG [Comprehensive program for the further Intensification and Improvement of Cooperation and Development of the Social and Economic Integration of the CEMA Member Countries], Warsaw, 1971.

6806
CSO: 2600

CEMA TRADE STRUCTURE GROWTH DESCRIBED

Budapest FIGYELO in Hungarian No 20, 14 May 80 p 16

[Article: "The Structure of the CEMA Trade"]

[Text] The spreading of the international division of labor among the CEMA states has especially increased the rate of the average annual growth of mutual trade among the member states. (The 8.2 percentage of the years 1960-1970 rose to 9.2 percent for the period between 1971-1975.) On the basis of signed trade agreements, in the course of the current five-year plan, the mutual trade of the socialist countries will rise at an annual rate of 8.5 percent.

Within the total foreign trade volume of the fraternal countries, the ratio of mutual trade has risen to 60 percent. To some degree, this is the result of the structural developments in the turnover of commodity trade.

In the course of the seventies, the mutual trade among the CEMA states expanded faster than did their economies.

The impact of mutual trade upon the process of production in the CEMA states will be considerably greater by the time of the fulfillment of the current long-range programs of cooperation to be completed in 1980.

For the first time in the relationship of the CEMA states, these programs will enable the determination of basic elements and parameters of their cooperation and trade for a period of 10 years and even longer.

Machines and equipment stand in the forefront in this mutual trade. Within the confines of the foreign trade of the individual countries, this amounts to between 30 and 60 percent.

The Export Structure of the Mutual Commodity Trade among the CEMA States (in percentages).

100% COMPLETE EXPORT		100%
OTHER		OTHER
20.5	Machines and Machine Equipment	43.0
26.0	Fuel and Raw Materials	25.7
7.4	Industrial Consumer Goods	10.4
20.5	Food and Raw Materials	7.4
1950		1977

Seventy-six percent of the machine industry exports of the CEMA states are directed toward CEMA markets, which satisfies 64 percent of their import needs in machines, equipment and in transport facilities. Simultaneously the application of division of labor to the machine industries of the CEMA countries has also increased. During the years 1971-1977, the ratio between the average rate of annual growth of the mutual export of machine industry products, and the average rate of annual growth of machine industry production was 1.66. (During the years 1966-1977 this was only 0.82). Production and trade in the machine industries of the CEMA states increase with a rate that is higher than the rate of their overall trade.

In the course of the current five-year plan, the volume of mutual exports in machines and equipment exceeds 90 billion rubles. (During the years 1971-1975 this amounted to 52 billion, and during 1966-1970 to 27 billion rubles). In 1980, the ratio of machines and machine equipment in Bulgaria's trade with the CEMA member states will reach 55 percent; for Hungary, 57 percent; for the GDR 66 percent; for Poland 56 percent; for Romania 51 percent; for the Soviet Union 42 percent; and for Czechoslovakia 58 percent. Approximately half the trade in machine industry products is being conducted within the confines of specialized manufacturing and cooperative production. In the machine industry, over 700 bilateral and multilateral agreements have been concluded concerning specialized manufacturing and cooperative production. This means that over 60 percent of such agreements signed by CEMA member states are concerned with this branch of industry.

The move toward specialization is indicated also by the fact that the individual countries have either decreased or ceased completely the export of numerous goods which earlier played a significant role in their domestic markets. In Bulgaria, these included mining and crude oil equipment, railroad rolling stock, agricultural machines (with the exception of tractors); in Hungary, metallurgical, hoisting and transportation gears, light industry equipment, railroad rolling stock (with the exception of diesel-powered trains), ships and shipping equipment; in the GDR, house-fabricating equipment and tractors; in Poland, crude oil equipment, trucks and buses; in Romania, trucks, ships and shipping equipment; and in Czechoslovakia, hoisting and transportation gears, ships, shipping equipment, buses, etc.

In line with the signed commercial agreements, the volume of mutual trade in electric calculators has risen from 3 billion rubles for 1971-1975, to 8.7 billion rubles for 1976-1980. Moreover, their ratio within the mutual exchange of machines and machine equipment has grown from 2.9 to 5 percent.

In 1977 the ratio of fuels and raw materials within the confines of mutual exports amounted to about 27 percent. In the same year, mutual deliveries of the more important raw materials were able to satisfy the import needs of the CEMA member states to the following degree [in percent]: coal 95.8, coke 94.4, crude oil 74.7, iron ore 74.4, manganese 77.7, pig iron 94.8, rolled metals 63.5, copper 81.1, aluminum 87.4, and cotton 76.4.

The acceptance and approval of a long-range program of cooperation concerning the supply of energy sources, fuels and raw materials will further strengthen the cooperation of the CEMA states in solving one of their most timely economic problems. The program, first of all, starts out with the notion that national reserves in raw materials have to be utilized to the greatest extent and that geological surveys on the lands of the fraternal countries must be identified. Secondly, much greater significance must be attributed to the transformation of the structure of production, with the goal of decreasing the still very high level of consumption of energy and raw materials. (If we regard the energy used for the production of a single product of a particular branch of industry in West Germany as being 100, then in Bulgaria, in the GDR and in Poland this number is 152, in the Soviet Union and in Czechoslovakia it is 145, and in Hungary 114. This also holds true for the consumption of various other raw materials).

In the course of developing one of the most energy-consuming branches of the industries of the CEMA countries, namely, the chemical industry--according to the signed agreement--the Soviet Union will concentrate on increasing the production of high-energy-consuming chemical substances (e.g., ammonia, methanol, polyethilene). In return for this, the Soviets will get small-volume and less energy-intense chemical products from the other CEMA countries (e.g., plant-protecting sprays, cohering agents, and various other light industry ingredients).

As demonstrated by past experience, the rationalized supplying of the economies of the CEMA states with fuels and raw materials is also aided by the activities of the CEMA's international organizations. On the basis of proposals developed by the INTERMETALL, by early 1976 the interested member states signed about 30 agreements concerning specialized manufacturing and cooperation in the area of metallurgical production. Today, the volume of mutual deliveries above the quotas contained in long-range trade agreements is already above 3 million tons. This compares to 780,000 tons for 1964.

Within the confines of this cooperation, the volume of mutual deliveries of nonferrous metals and alloys produced through the utilization of unbound production capacities alone amount to over 1.5 million tons. In this manner, it was possible to save about a half a billion dollars. The expansion of the trade of nonedible raw materials among the CEMA states also means simultaneously the wider application of compensational exchange among the member states, as well as the development of trade among organizations and ministries concerned with the supply of materials and technical services. In 1978, the volume of trade in goods that were freed and destined for technical production, among the CEMA countries amounted to 200 million rubles. This was 4.3 times greater than that in 1975.

The ratio of consumer goods within the framework of the mutual exchange of goods amounts to 20 percent. At present, the fraternal countries are able to supply two-thirds of their import needs of the above-mentioned products through mutual cooperation. In most of the CEMA countries these consumer goods constitute a sizable portion of the domestic commodity stock. In the Soviet Union this index on furniture, shoes, finished clothing textiles, vegetables and fruits is 15 percent. In Poland, the import of consumer goods satisfies 10 percent of the domestic demand. Hungary's share in this retail trade, on the other hand, is 19 percent. In the ensuing decade, the mutual exchange of consumer goods will receive an ever-increasing role in supplying the needs of the population of the fraternal countries. In viewing the ratio and rate of increase of the trade in consumer goods, one has to stress especially the group of goods that qualify as "consumer products of industrial origin." In this case the value of the mutual trade in 1977 approached 9 billion rubles, and thus it was 2.1 times greater than in 1970. During the seventies the rate of growth of trade in consumer goods has surpassed the general production index of the socialist countries by 20-25 percent. But there are still significant reserves in light industry and in various other branches producing consumer goods that can be utilized through an even greater application of the division of labor. In most of the CEMA states the per capita volume of trade in common consumer goods is only one-third to one-fifth that of the developed capitalist countries.

Food products and food-related raw materials have a significant place in the trade of the CEMA countries. During the seventies, the ratio of these products in the mutual exchange of goods was 9-10 percent. In 1977, the volume of this trade--as compared to 1977 [as published]--rose 2.6 times, and reached approximately 8 billion rubles. The chief exporters of fruits, vegetables, and products derived from these produce were Bulgaria, Hungary and Romania (75-95 percent), and the chief exporter of fish and fish products was the Soviet Union (78 percent). Poultry products are exported by Bulgaria, Hungary and Poland (95 percent), and meat products by Hungary, Mongolia and Bulgaria (75 percent). The mutual exchange of food products by the CEMA states plays an important role in satisfying the import needs of the GDR, Poland, the Soviet Union and Czechoslovakia. The above-mentioned states import 95 percent of the products enumerated above from the other member states.

Even though the CEMA states are still guided by the policy which demands that in the area of the most significant food products they should satisfy their own needs through domestic production, the mutual delivery of these food products--in accordance with the long-range program of cooperation in agriculture and food-industry--plays an ever-increasing role in the rise of their standard of living.

The further strengthening of our domestic agriculture and food industry is imperative because--as demonstrated by past experience--its role is decisively important in our efforts to increase the yield in cereals and animal husbandry, in the production of other basic agricultural produce, as in the intensification of agricultural production in the fraternal countries. At the same time, the task of bringing agricultural specialization of the individual CEMA countries into greater harmony with their climatic, soil and other related conditions remains a goal. This also holds true for the desire to direct the exportation of their products to international CEMA markets, and in conjunction with the further development of the price and credit mechanisms of this cooperation.

The analysis of the developmental tendencies and prospects of the trade among the CEMA states indicates that the large-scale economic projects, undertaken in conjunction with long-range cooperation programs, will significantly enhance the growing effectiveness of the mutual economic relations of the member states. They will also increase the role of these relations in the solution of the timely goals of the national economies of the socialist countries.

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CSO: 2500

INTERNATIONAL AFFAIRS

DEPUTY MINISTER INTERVIEWED ON CEMA TRADE SITUATION

Budapest HETI VILAGGAZDASAG in Hungarian No 19, 10 May 80 pp 4-5

[Interview with Janos Vas, deputy minister of foreign trade, place and date not specified]

> [Text] The expected reduction in the rate of economic growth of the CEMA states does not necessarily entail a significant decline in mutual foreign trade. It is impossible, however, to avoid a temporarily reduced rate, as exemplified by the present year. The view that trade with socialist countries is almost exclusively a state affair, is erroneous; there still are many unused resources hidden in enterprise activities, said Janos Vas, deputy minister of foreign trade.

[Question] As we near the end of the five-year plan period, how would you characterize our total balance with the individual CEMA countries; it is well-known that, although the member states are striving for a balance in their foreign trade, balance surpluses and liabilities are not uncommon?

[Answer] I can report that our trade with the CEMA countries is practically balanced today. There was a period in the early 1970's when there was a significant Hungarian surplus, that is, we sold more to certain countries than we bought from them. By 1976-1978, balance was established with several tens of millions of rubles between our annual exports to and imports from the individual countries, this signifies a surplus or liability only in mathematical terms. In economic terms, our foreign trade is balanced. I want to emphasize, however, that this is demanded mutually by the partners. Also, the planning and implementation of trade agreements is carried out in pursuit of balance.

[Question] The present economic plans of the socialist countries generally prescribe a reduction in the rate of economic growth, and the objectives for the next five-year plan period are similar. Will this not result in a narrowing of our export and import possibilities with the CEMA countries?

[Answer] As was mentioned in several earlier reports published in the HETI VILAGGAZDASAG [Weekly World Economy], all socialist countries are facing economic problems similar to ours. They were unable to entirely counteract the disadvantages of the world market by increasing production efficiency. So there were tensions in both domestic and foreign economic balance. To stabilize economic balance, our partners decreased accumulation and generally reduced their rate of economic growth in almost all branches of the economy. At the same time, they took steps to decrease imports and to increase exports dynamically.

I do not think, however, that the expected reduction in the rate of economic growth will necessarily result in a significant decrease in foreign trade. The reduction is, however, temporarily unavoidable, as exemplified by the present year. It is my opinion that trade in machines determines the rate of growth in trade among the CEMA countries. Although the deliveries of other products, such as raw materials and farm products, are expected to increase, the rate of growth no doubt will depend on whether cooperation in machine production will compensate for the otherwise moderate growth. There already have been examples of this in developed industrial countries. The question now is whether it will be possible to increase machine deliveries between the socialist countries enough to compensate for reduction in other areas. I doubt that this will be entirely possible in the first few years. But after the transition period, it will depend only on us whether we can speed up. The increased mutual deliveries of so-called productive spare parts and partial units, necessary for the manufacture of finished machine products, can promote this process especially well. Measures in this regard already have been taken.

[Question] The value of raw materials and energy has increased in the last 5 years. Selling them is no problem; buying them, on the other hand, is not easy. How much of Hungary's demand for raw materials and energy can be met by the CEMA countries?

[Answer] It already has become certain from the preliminary conferences that the raw materials and energy purchased up to now will continue to be available to us. Long-term agreements are expected to guarantee our imports of oil, timber, gas, coal, fuel-cake, artificial fertilizer, and other products from the socialist countries. Our imports of chemical materials, wood pulp, and electric power will increase. We must realize, however, that even maintaining the existing level of certain imports may be considered a significant achievement, since the resources of the socialist countries also are limited. And if we were to be unable to purchase these products from the socialist countries, often at much lower than world market prices--products such as oil, for example, which costs us about half the world market price--then we would have to acquire them under more difficult conditions from the capitalist market. In exchange for our purchases of raw materials and energy, we deliver primarily agricultural and light industrial products: grains, meat, wine, and fruits on the one hand, and shoes, textiles and medicines on the other, but also machine products, including buses and electronic products.

[Question] The CEMA countries deliver several products to capitalist markets which also are badly needed by their socialist partners. I am thinking primarily of raw materials and energy fuels. Are the socialist countries seeking to pursue the possibility of exchanging so-called essential goods between themselves?

[Answer] First of all, I would like to emphasize that it is our important objective to make it possible for the CEMA countries to exchange among themselves those products which they now sell from time to time on other markets. When, on the basis of given needs and possibilities, we sign our long-term trade agreements every 5 years, it is possible for us to agree on the deliveries of the great majority of products needed. But we may subsequently need more, or other, products which, although the socialist countries do export, have already been slated for import from capitalist countries where the prices and conditions are different. It is in our interest, however, to exchange these products mutually as well, even at capitalist world market prices and for convertible currencies. The advantages include geographic proximity and lower costs of transportation. The ministry supports such efforts by the enterprises. Of course, the proportion of goods delivered for convertible currency is insignificant in relation to the total CEMA trade, but it could be significant in certain products.

[Question] There is much talk in Hungary today about lax discipline in transportation. How does this affect our foreign trade?

[Answer] This undesirable phenomenon is an even more sensitive matter in foreign trade than in domestic trade. Our experience is, however, that the Hungarian national economy and Hungarian industry are among the leaders regarding annual deliveries. On the other hand, we do have an acute malady, namely the volume of deliveries in the fourth quarter is many times that of deliveries in the first quarter. An enterprise's delay in delivery creates a chain reaction of delays. Therefore, the significance of punctual and regular deliveries has greatly increased. We must encourage our exporters not only to meet their total annual obligations but also to distribute these proportionately. Unfortunately, the penalty system within CEMA is fairly loose, and the enterprises often reckon with the possibilities of delay. In practice, then, this is not a suitable sanction. The main danger for the enterprise is the loss of a profitable and permanent market. But if our delays in deliveries were to jeopardize our foreign trade policy interests, then the possibilities of incentives and, of course, of sanctions also will have to be examined.

Regarding last year specifically, discipline in deliveries improved somewhat. Not only was the major part of last year's targets fulfilled, but items carried over from 1978 also were taken care of. At the same time, it cannot be ignored that again there were delays in deliveries within the planned total output on both sides. Although these were less frequent than in 1978, they still created problems for the partners. Regarding delays of imports, I must mention those of pine timber, fuel-cake, coke, salt, sulphur, caustic potash, cement, and various consumer goods. But I must give a few examples of our delays as well. Our delayed deliveries included various machine products and spare parts, and ready-made clothing and knitwear. Our trade policy is consistent with regard to delayed deliveries: mutual obligations must be met completely by both parties.

[Question] Perhaps those enterprises which believe the authorities will tell them what they must do to implement socialist exports and imports want to have the longer end of the stick?

[Answer] Indeed, we still find the view today that socialist foreign trade is almost exclusively a state matter, carried out only on the basis of governmental or, at least, ministerial decisions. But it is clear that enterprise activity still has many unused resources. Government measures only define its framework, merely directing but not replacing, enterprise relations.

[Question] As is well known, the basis for pricing in the joint trade of the socialist countries is the world market price, from which the temporary boom fluctuations must be filtered out. Has an agreement been reached about determining CEMA prices for the next five-year plan period?

[Answer] The CEMA organs concerned already have discussed this question and have agreed not to make any changes in the present principles and methods of pricing. In practice this means that CEMA prices will continue to be flexible and to follow world market prices, since there are certain price changes every year. But because the basis of pricing will continue to be the 5-year average, price fluctuations resulting from boom cycles and speculation can be filtered out. Thus there will be no change in comparison with the previous 5-year period. At the same time, it is true that there were some proposals to use other methods, but the organs concerned decided to stay with the present principles and methods.

9414
CSO: 2500

ROMANIAN-CZECHOSLOVAK ECONOMIC COOPERATION DISCUSSED

Bucharest SCINTEIA in Romanian 9 May 80 p 5

[Article by Ion Patan, deputy prime minister of the government, chairman of the Romanian side in the Joint Romanian-Czechoslovak Governmental Commission on Economic and Technical-Scientific Collaboration: "Economic Collaboration, an Important Factor in Romanian-Czechoslovak Multilateral Friendly Relations"]

[Excerpts] In the fruitful Romanian-Czechoslovak collaboration, there has been a remarkable expansion and diversification of relations in the economic sphere; on the basis of the favorable premises created by the achievements of the Romanian economy, in which the process of growth and modernization is in full swing and by the high level of development of the Czechoslovak economy, the material support for this collaboration is being consolidated year after year. Let us stress, first of all, the high rate of trade. Last year, Czechoslovakia occupied fourth place in Romanian trade with socialist countries and seventh place in all Romanian foreign economic relations.

During the past two decades, the volume of trade increased 10 times and the provisions for the 1976-80 period represent an increase of 40 percent above the level attained in the preceding five-year plan. It is significant that these provisions were actually achieved at the end of 1979 which means that the initial program will be exceeded substantially. Each year, there has been an improvement of the qualitative indicators of the exchanges which finds expression in the fact that, at present, reciprocal deliveries of machines and equipment account for more than 50 percent of the volume of these exchanges.

In this framework, Romania supplies Czechoslovakia with different types of machine tools, high and low tension apparatus, computer technology, petroleum equipment, machines for construction work, trucks and passenger cars, grain combines, bearings, etc. Czechoslovakia delivers to Romania different categories of machine tools and equipment, means of transportation, including passenger cars, measurement and control devices and tools, etc. Reciprocal deliveries of iron and steel products, energy and fuel, and chemical products as well as consumer goods occupy an important place in this trade.

As a result of the extension of superior forms of collaboration, the products achieved through specialization and bilateral cooperation in production make up at least 20 percent of the volume of exchanges in the present five-year plan. Through cooperation and specialization, a wide range of products are manufactured in a number of enterprises in Romania and Czechoslovakia, products such as different types of metallurgical equipment, motor axles for tractors, high productivity machine tools, including heavy vertical lathes, automated lines, cables, conductors, polyisoprenic rubber, drugs--items of the greatest importance for the Romanian and Czechoslovak national economies.

One can say, with complete justification, that the expansion and diversification of economic cooperation and collaboration are making a valuable contribution to the progress of the two countries, to the implementation of the program drawn up by their Communist parties for the continued development of the forces of production and of the entire economy. The development of Romanian-Czechoslovak collaboration and cooperation on multiple levels also makes a contribution to strengthening collaboration within CEMA in the implementation of the "complex program," in the interest of the acceleration of the progress of the national economy of each member country and in the interest of bringing their levels of development closer together and equalizing them.

On the occasion of the recent working meeting, in Prague, of the chairmen of the two sides of the joint Romanian-Czechoslovak Governmental Commission on economic and technical-scientific collaboration--an organism which plays an important role in the intensification of relations in the respective field--new measures were adopted for the continued expansion of collaboration. In this framework, special attention is being given to coordinating the plans for economic development for the 1981-1985 period and to concluding, on the basis of the results of the respective projects, the future long-term trade agreement which will signal, undoubtedly, a new substantial increase in trade. Along with the extension of actions of cooperation and specialization which are currently underway, Romanian and Czechoslovak specialists are working to perfect similar actions, especially in the most important branches, including the electronics and electrical engineering industries, and in other domains of mutual interest.

CSO: 2700

GDR INDEBTEDNESS TO USSR OVER ENERGY COSTS SEEN RISING

Stuttgart OSTEUROPA WIRTSCHAFT in German Vol 25 No 1, Mar 80 pp 14-40

[Article by Raimund Dietz, Vienna Institute for International Economic Comparisons, Vienna, Austria: "Price Changes in Soviet Foreign Trade with the GDR 1956-1980"]

[Text] Abstract

Since 1975, unfavorable trends of terms of trade in the GDR's foreign trade with the USSR can be observed. This results from the fact that the GDR delivers mainly manufactured goods to the USSR and purchases raw materials and energy instead. Rapidly increasing indebtedness, which must continue to grow in the near future as the result of unavoidable price developments especially in the sphere of energy deliveries, will force the GDR to consider possibilities of material savings and of cutbacks in production and consumption. Decreasing rates of growth of national product and of industrial production may help reduce material inputs but will certainly also cause severe difficulties for the satisfaction of domestic demand and export necessities.

Foreword

This study will deal with the following questions:

1. To what extent the foreign trade prices agreed upon by the two countries follow the trends prescribed by the price formula established in Bucharest in 1958, and what are the possible causes of eventual deviations?

2. How has foreign trade between the two countries developed under the influence of price changes? What are its future prospects?

3. How have the USSR's terms of trade vis-a-vis the GDR developed, and how great are the burdens being placed on the GDR in the wake of increases in prices for raw materials in trade within CEMA?

The price changes in Soviet foreign trade were calculated according to the so-called unit-value method using official data from Soviet foreign trade statistics which report volumes and values. The price indexes for the years between 1955 and 1970 are taken from E.A. Hewett; those for 1970-1976 are our own calculations. It proved impossible to calculate price changes beyond 1976 since the Soviet Foreign Trade Ministry began in 1977 to reduce substantially the number of published positions containing data on both value and volume. Thus, for 1977 and subsequent years, we have to rely on estimates based on information regarding the development of world market prices. A forecast covering the period through 1980 is based on these estimates.

This article relates to a study on "Price Changes in Soviet Foreign Trade with CEMA and the Rest of the World Since 1975," which has been published as a research report of the Vienna Institute for International Comparisons (Research Report No 55); for the sake of brevity, hereinafter the report will be referred to as Study I.* The substantive connection with Study I is established since it contains the following information:

A detailed presentation (Study I, Section 6) of the methods used to calculate changes in foreign trade prices (so-called unit-value method);

Comparative data on price changes in Soviet foreign trade with the other CEMA countries for 1975 to 1977; and

A complete description of the pricing mechanism used in trade within CEMA for 1975 and subsequent years, taking Soviet petroleum exports as an example.

1. Survey of the Development of Trade Between the USSR and the GDR

The economic leaders of the GDR sought to compensate for the break in traditional (predominantly inner-German) trade relations resulting from the partitioning of Germany partly by building up the GDR's own heavy industry and partly by depending on the USSR for economic support. In any event, exchange relationships between the USSR and the GDR surged in the first two decades after the end of the war* (Tables 1-X and 1-M). The USSR's share of the GDR's foreign trade turnover increased steadily, reaching its highest level -- nearly 50 percent -- in 1963. Meanwhile, the GDR accounted for 18 percent of Soviet foreign trade at that time.

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* A shorter version in English is available (signed to press 31 March 1979): Joint Economic Committee, Congress of the United States of America (ed), "Soviet Economy in a Time of Change," Vol I, 1979, pp 263-290; reprinted in the Reprint Series of the Vienna Institute for International Economic Comparisons, No 44.

The one-sided orientation of trade relations with the Soviet Union until 1963 corresponded with an extremely one-sided political dependence upon the USSR in the world. The year 1963 saw a change in trend, the causes of which were political and economic. The measures that sealed off the country in 1961 brought to a close the period of political insecurity for the GDR regime, the result being its consolidation in terms of foreign policy. The economic reforms instituted in 1963 -- which the GDR leadership believed represented a model worthy of emulation by the other East European countries -- revealed a new self-confidence which was reflected in a greater flexibility in the foreign policy sector. From 1963 on, both countries exhibited steadily declining shares in each other's markets. This process lasted until 1974, at which time the GDR was doing only a little more than 30 percent of its foreign trade with the USSR. To be sure, the GDR was still the Soviet Union's largest foreign trade partner, with an 11-percent share.

The reciprocal shares of the two countries' trade have been rising again since 1975, but this is only because of price increases in internal CEMA trade, the scope of which will be discussed in depth further on in the article. Relatively speaking, the GDR has also lost its position to the other East European countries: Though it was by far the USSR's strongest CEMA partner in the 1960's, today it is followed closely by Poland and Bulgaria (foreign trade turnover in 1978 in millions of rubles: GDR, 7,693.2; Poland, 7,049.6; Bulgaria, 6,131.8).

Characteristic of the relationship between the GDR and the USSR is first of all the different degrees of mutual dependence: The volume of GDR products on the Soviet market is only about one-tenth the volume of Soviet goods in the GDR.[1] In the second place, the commodity structure is marked by a high degree of complementarity: The GDR exports mainly finished goods to the USSR, while Soviet exports consist in large measure of raw materials and semi-finished products.

In 1978, the year before the major price increases, 85 percent of GDR deliveries were finished goods. The remainder consisted of products of the chemical industry (4 percent), negligible amounts of building materials[2] and raw materials of agricultural origin[3] and other products (1978: 10 percent), possibly military goods.[4] If the unspecified products are added to the large group of finished goods, this category constitutes about 95 percent of the GDR's exports.

By contrast, raw materials and semi-finished products accounted for 80 percent of Soviet deliveries in 1978, while 8 percent were products of agricultural origin (for food and other purposes). Deliveries of machine- and installation-construction goods made up 20 percent of Soviet exports. Exports of products of the food industry and industrial consumer goods were negligible. Noteworthy in this regard is the high percentage of means of production in Soviet deliveries to the GDR, but it is not possible to determine a precise share in relation to consumer goods.

The exports of underdeveloped countries are usually heavy on raw materials. Were one to deduce the development level of the Soviet economy from the USSR's export structure, one would have to conclude that the technological gap in relation to the GDR's economy is immense and that the GDR is clearly the giver when it comes to the transfer of technology. If this is true at all, it certainly does not apply to the extent suggested by the difference between the two export structures. With reference to the raw materials and fuels sector, the USSR holds for the GDR and for all East European countries more or less the position which the developing countries occupy in supplying the West European industrial countries. The GDR, with meager natural resources of its own, satisfies much of its demand for raw materials from Soviet sources (Table 1). Machinery can consequently account for only a limited percentage of imports.

While GDR exports have always been unbalanced on the side of manufactured goods, the following structural shifts show up in deliveries by the USSR[4a]: As a result of unfavorable developments in Soviet agriculture, there was an absolute decline (and therefore a very sharp drop in terms of percentages) in agricultural exports to the GDR in the years between 1961 and 1974. In the area of foodstuffs and the raw materials needed to produce them, the Soviet Union became a net importer vis-a-vis Eastern Europe (the Soviet Union had formerly been an important supplier); in relation to the GDR, however, the USSR continued to be a net exporter since it purchased no foodstuffs from that country. At the same time during the 1960's, prices were declining for commodity group 2 (fuels, ores, metals) (Table 2-X), a group that is defined very broadly under the Soviet system. Soviet machinery deliveries moved into this vacuum. They had to increase by more than 20 percent annually in order to keep pace with the overall growth of GDR exports: Their share amounted to only 4 percent in 1960 and had risen to 23 percent by 1974. Conversely, GDR machinery deliveries -- whose growth largely determined the development of overall exports (62 percent in 1974) -- rose by an average of only 7 percent.

The difference between the two growth rates is first of all an expression of a catch-up process contingent upon development. However, the percentage of machinery was able to and had to increase during this period because the other goods categories were losing ground. The situation has changed completely since the substantial price increases in internal CEMA trade in 1975. Today there is an upper limit on the proportion of machinery in Soviet deliveries because the inflated and inflationary imports of raw materials by the GDR leave little room. Even if Soviet machinery and installations were technically much more attractive to the GDR, there would be virtually no more room for their import -- in addition to the vital raw materials purchases -- than the 23-percent share reached in 1974.

2. Price Trends in Soviet Trade with the GDR

2.1 The 1956-1970 Period

Since a number of monographs have been written on the pricing mechanism used in trade within CEMA, we may limit ourselves to only the briefest of treatments.[5]

After there had been no positive response within CEMA to proposals that it find its own price base corresponding to the conditions of supply and demand within the CEMA area, price regulations were passed at the Ninth Council Session in Bucharest (1958). These regulations did indeed keep to the principle already acknowledged up to that point -- that world market prices should ultimately determine the way prices go inside CEMA -- but they specified more precisely than before the modalities to be used in carrying world market prices over to CEMA.

If pricing within CEMA was governed largely by arbitrary interventions until 1958, even today it cannot be said that prices are determined strictly according to the rules laid down in Bucharest. This is because the nature of the Bucharest arrangement is binding only insofar as each partner may appeal to it and demand that it be applied; prices are still set bilaterally and are left up to the respective partners. The results of negotiations very often deviate from the price that would have to be set according to the formula agreed upon in Bucharest. The greatest difficulty lies in documenting the prices on those world markets which are defined as primary commodity markets; in other words, there are difficulties particularly with regard to high-grade industrial products.

Under the Bucharest principles, world market prices are not to be carried over directly but are to be adjusted for "speculative factors and market influences." According to official statements, the world market prices are to be adjusted in such a way that those for a specific base year, or a fixed base period, serve as guidelines for the particular contractual prices. For instance, 1957 prices served as a guide for the 1958-1965 period, those for the 1966-1970 period determined prices for the 1960-1964 period, and those for 1971 through 1975 set prices for the years between 1965 and 1969.[6]

It is therefore no wonder that Soviet foreign trade prices changed the most in the years in which the CEMA countries were fixing their prices in line with a new price base. According to E.A. Hewett, for example, Soviet export prices for fuels and metals (ETN 2) and for agricultural raw materials (ETN 7) thus declined between 1964 and 1965 by 8 percent and 11 percent, respectively.

To be sure, Hewett's data also show a number of price changes in internal CEMA trade which do not conform to the world market prices as adjusted under the Bucharest pricing formula. For instance, after Soviet raw materials prices for foodstuffs had dropped in 1965, they rose again in 1967 above the level of 1964 prices. This price revision probably has more to do with the USSR's harvest problem than with the Bucharest formula. A further example: Toward the end of the 1960's -- or in a period within which prices were supposed to remain constant -- a higher value was placed on machinery and installations from the CSSR and the GDR. Prices for Soviet machinery deliveries showed no noticeable upward trend.

Sharply condensed, Hewett's analysis on price changes in Soviet foreign trade with the CEMA countries can be summed up as follows: The price revision carried out in 1957, or prior to the Bucharest meeting, led to a certain worsening of Soviet terms of trade vis-a-vis the East European countries (with the exception of Hungary and Romania). In trade with the GDR, the terms fell by a good 6 percent, and again in 1958 by about 5 percent (Table 2).

Soviet export and import prices remained unchanged on the whole during the period between 1959 and 1964. The main price changes were for new products, or chiefly machinery. These changes favored primarily the exporters of machinery -- in other words, Eastern Europe over the USSR. A conspicuous fact is that the price increases passed Soviet machinery by, thus of course burdening the USSR's terms of trade. These terms of trade fell by nearly 11 percent vis-a-vis the GDR in the years between 1959-1964.

More extensive price revisions came with the transition to the next plan period, or the years 1965 and 1966 (1966 and 1967 for Hungary and Bulgaria). In these 2 years, Soviet terms of trade in relation to Eastern Europe worsened by about 10 percent: Soviet export prices dropped by 10 percent, while import prices did not change.

Soviet terms of trade also showed a declining trend in the subsequent 1967-1970 period for which prices were supposed to remain constant. The reason for the drop this time was rising import prices, especially for finished goods. Also in this period, according to Hewett's calculations, the sharpest drop in Soviet terms of trade came in trade with the GDR. The GDR was able to put through substantial price increases for its machinery and industrial consumer goods.[7]

Thus, viewed over the entire 1956-1970 period, Soviet export prices in trade with the GDR lagged significantly behind import prices (Tables 2, 2-X, 2-M, 2-T /sic/). The decline in Soviet terms of trade is composed of two elements: First of all, because of the Bucharest formula the trend on world markets was reflected in the foreign trade prices of both countries. Once the Korean crisis was over, raw materials had grown less expensive in comparison with manufactured goods. This reduction had a particularly strong effect because of the complementarity of economic relations in trade between the two countries.

Secondly, while prices for Soviet machinery were falling until 1970, the GDR was able to effect price increases for its machinery and installations, so the Soviet terms of trade for this commodity group worsened by a total of 41 percent between 1956 and 1970. Moreover, the USSR also experienced a decline in its terms of trade vis-a-vis most of the other East European countries, though not to that extent.

Only the first element of the Soviet terms-of-trade losses -- the relative reduction in raw materials prices in comparison with manufactured goods -- can be traced to the Bucharest formula. We can only state some conjectures concerning the drop in Soviet terms of trade beyond the level to be expected under the formula:

The drop in the USSR's terms of trade in the machinery sector might be attributable to a gradual reduction, beginning in the mid-1950's, of the inequitable foreign trade prices that until that time had frequently been dictated by the Soviet Union. Khrushchev admitted to abuses of this kind at the 20th CPSU Party Congress. It is possible that these adjustments were particularly pronounced with respect to the GDR as a formerly occupied country;

Moreover -- and this argument refers specifically to the GDR -- that country occupied a very strong position within CEMA as a supplier of machinery in the 1950's and 1960's. In 1963, 29 percent of all Soviet imports of machinery came from the GDR.[9] It is possible that the GDR gained certain price advantages by virtue of this strong position. The circumstance that Soviet machinery exports were growing in real terms approximately 4 times as fast as reciprocal deliveries might also have influenced the development of prices to the disadvantage of the Soviet Union;

But it seems to me that the key to an understanding of price developments is more likely to be found in the mechanism used to set prices in internal CEMA trade. This mechanism alone explains why only with raw materials and not with finished goods did the price trend follow the world market prices that had been adjusted under the price formula. The Bucharest pricing principle is a substitute for the countries' own nonexistent pricing forms. Its proposed task is to objectivize to a certain extent the setting of prices in trade among CEMA countries by reference to the development of world market prices. Nevertheless, any transference of world market prices, no matter how they may be modified, is possible only with relatively homogeneous economic goods such as raw materials and semi-finished products. It is relatively easy for the purchaser to document their prices and keep from being cheated. The East European countries were able to do this all the more easily vis-a-vis the powerful USSR because its political preponderance compels it to guard against acquiring the reputation of seeking unilateral advantages for itself. In fact, as Hewitt demonstrated for the 1956-1970 period, the development of raw materials prices followed the world market trends (modified by the formula). This was not so, however, in the manufactured goods sector. Since it is well-nigh impossible to document reliable world market prices for manufactured goods, it became the practice to employ a solution that deviates from the Bucharest agreements: Thus, it is usually the domestic prices of the exporting countries rather than the world market prices that constitute the base point for the bilateral price negotiations normally conducted centrally by the ministries. Domestic prices frequently deviate from the foreign prices by as much as 100 percent. As S. Ausch writes,[10] differences from world market prices that are encountered in the course of negotiations influence at most the direction, but not the scope, of the price adjustments. Since domestic prices generally are considerably higher than those on the world market, this practice has led to a considerable overvaluation of finished goods in internal CEMA trade, even though the bulk of finished goods are considered soft within CEMA while raw materials are considered hard because they can be sold at any time in the West. Consequently, while the raw materials' price structure has been leading to steady terms-of-trade losses for the USSR because of the relative reduction in price of these materials on world markets in accordance with the Bucharest rule, the smaller East European countries have on the other hand gained certain price advantages from the "violation" of the Bucharest rule in the finished goods sector;[11]

Last but not least, the Hewett indexes (and my own starting with the year 1970) are encumbered by some uncertainties. The reason is that the data published in Soviet foreign trade statistics permit only very rough estimates of the actual development of prices -- results can be no better than the material used to derive them.[12] The price indexes do, however, correctly reflect the trend and the proportions. There are several criteria for this: (1) the official Soviet indexes on the development of foreign trade volumes with the CEMA countries, from which the corresponding price changes can be deduced; (2) the calculations of price indexes for trade with various East European countries, thus permitting cross-comparisons; (3) certain information on manipulation of the price formula in connection with the development of world market prices.

2.2 The 1971-1974 Period

In complete conformity with the price formula issued in Bucharest in 1958, foreign trade prices between the two countries changed only slightly in the 1971-1974 period -- whereas world market prices for this period had quadrupled for fuels, with a 53-percent increase in food prices and a 37-percent increase in prices for manufactured goods.[13]

Thus, even though prices on the international markets showed movement on a broad front, they remained relatively stable in Soviet foreign trade with the GDR. Hence, the Bucharest pricing principle held up against the onslaught of inflationary processes on the world markets up to 1974.

Despite the shift in price relationships in favor of raw materials that had begun as early as the beginning of the 1970's, the trend of the second half of the 1960's evidently prevailed in the development of terms of trade between the two countries: The GDR was able to put through price increases averaging 2.4 percent for its assortment of mainly manufactured goods between 1971 and 1974. Prices for GDR machinery again rose faster than those for Soviet reciprocal deliveries. On the other hand, the much more easily documented raw materials prices remained constant, with two exceptions: Prices for hard coal and hard coal coke were increased by 11 percent and 17 percent, respectively, in 1972. In 1974 the price of Soviet petroleum rose by 32 percent. These individual measures caused the prices of Soviet energy deliveries to rise by 6.4 percent in 1972 and 23.1 percent in 1974.

The 1974 petroleum price increase is incomprehensible if it is not placed in relation to the price increases that occurred in the following year. The Soviet Union doubled the price for its petroleum exports to the other CEMA countries in 1975. Only a 50-percent increase was demanded of the GDR, thus enabling it to defray the price rise in two phases. Moreover, the price the GDR had to pay was still the lowest within CEMA[14] (Tables 3-X, 3-M and 3-T).

While the USSR's exports to the GDR declined in absolute terms in 1971 and 1972 (at current prices), its imports rose by 11 percent and 18 percent. Major joint investment projects were beginning in the Soviet Union at that time. The ratio of growth rates reversed in the 2 succeeding years: Soviet exports rose by an average of 14 percent, while imports increased by only a scant 3 percent.

The especially vigorous growth of Soviet exports to the GDR in 1974 is attributable mainly to the start of natural gas deliveries in the amount of 2.9 billion cubic meters. Aside from this one-time increase, energy deliveries rose at a fairly even rate.

The ups and downs in the growth of Soviet exports can be traced to sharp fluctuations in the machinery sector and erratic declines in deliveries of agricultural products. While machinery deliveries dropped off by 9 percent in 1972 compared to the previous year, for example, they climbed by more than 40 percent the next year. Thanks to above-average harvest results in the GDR, it was possible to compensate for the loss of Soviet agricultural exports resulting from crop failures.

As we have already seen, Soviet imports from the GDR stagnated in 1973 and 1974 (average annual nominal growth, 2.8 percent; real growth, -0.1 percent). Growth of Soviet imports declined in all sectors. Machinery deliveries by the GDR rose by 24 percent in 1972 but declined by 7 percent in 1973 and 2 percent in 1974. The change is especially marked in the consumer goods industry sector. While GDR deliveries were still growing by 31 percent in 1971, they fell by a total of 17 percent in 1973 and 1974. This development conforms to the economic policy program of the Eighth SED Party Congress which ushered in a more consumer-oriented policy: imports of consumer goods were stimulated while exports were slowed.

2.3 Development of Foreign Trade Prices Since Establishment of the Sliding Price Formula in 1975 (Moscow Price Formula)

Coinciding with the introduction of the sliding price formula in trade with the CEMA countries in 1975 were sharp price increases. The prices were raised in 1975 to a level unprecedented in the history of CEMA. Prices for Soviet exports to Eastern Europe rose by 39 percent in that year; import prices increased by 26 percent.[15] The GDR was hit especially hard by these increases.[16] While the structure of Soviet exports to the GDR does not deviate significantly from the delivery structure for the other East European countries, imports from the GDR are concentrated almost exclusively on finished products -- a deviation from the general pattern. The consequence was that prices of Soviet exports to the GDR rose just about as sharply (41 percent) as with other East European countries,[17] while prices on imports from the GDR remained substantially lower (with an increase of only 22 percent) than the average for Eastern Europe (26-percent increase).

In the case of Soviet exports, prices were increased sharply on all raw materials and semi-finished products. The first to be mentioned are fuel prices: While prices for crude oil had already been raised by 30 percent in 1974, they went up again by 50 percent in 1975. The GDR had to pay 119 percent more than in the preceding year for hard coal and 92 percent more for anthracite, both of which make up far larger proportions of the GDR's fuels than is the case with the other CEMA countries. The price of coke rose by 50 percent, but that for natural gas was not increased in 1975. Average prices for ores and metals rose just as sharply as for fuels. The USSR added 41 percent to the previous year's price for crude ore, and the ruble price for bar steel and structural alloy steel increased by 81 percent and 52 percent, respectively. Only slightly lower were the price increases on goods of agricultural origin. Prices rose by an average of 54 percent for viscose fibers, cardboard, cotton and the like -- or raw materials and semi-finished products of agricultural origin that are not used for nutritional purposes. Price increases on foodstuffs and raw materials used to produce them were somewhat lower. Moderate increases were were recorded in prices for Soviet machinery (9 percent) and industrial consumer goods (6 percent). In these two sectors, which account for about 80 percent of GDR deliveries to the USSR, the GDR's export prices again rose more rapidly than did import prices, thus enabling GDR foreign trade to avoid an even sharper drop in the terms of trade.

The extreme asymmetry of foreign trade relations between the USSR and the GDR prevents a thorough comparison of price increases for exports and imports in the individual commodity groups, since transactions involving Soviet imports from the GDR affect only three commodity groups that are worth mentioning: machinery and equipment; products of the chemical industry; manufactured goods. By contrast, all commodity groups are involved in Soviet exports.

The main reason that the GDR had to accept the largest terms-of-trade losses in Eastern Europe is probably that it exports no foodstuffs or agricultural products for other uses (commodity groups 5,7 and 8) to the USSR but does import Soviet agricultural products. Unlike the other East European countries, the GDR was therefore unable to participate in the agricultural price increases which CEMA also put through in line with trends on the world markets. On the contrary: As a result of harvest failures, the USSR was forced in 1975 to import 16 million tons of grain from North America; the prices it had to pay exceeded the previous year's level by 61 percent. These price increases were passed on to the GDR in full: The price of wheat rose by 66 percent in 1975, with prices for sunflower seeds going up by as much as 91 percent. Thus, deviating from the otherwise dampening effect of the price formula, agricultural prices increased disproportionately. Deliveries declined sharply at the same time: Soviet statistics for 1978 report only a meager balance in this commodity group.

The year 1976 falls outside the price adjustment process even though the formula of the sliding 5-year average was applied for the first time that year: For, with reference to the 3-year average for world market prices covering 1972-1974, in 1975 the tremendous disparity between prices in internal CEMA trade and current market prices had been reduced by almost half. Consequently, there were only weak impulses for the further price adjustments of 1976 -- in accordance with the 5-year price formula, 1971 was added as a "cheap" reference year and 1975 as a "costly" year. Soviet export prices climbed by 7 percent and import prices by a scant 2 percent, with the result being a further worsening in the terms of trade amounting to 5.5 percent.

Prices for Soviet fuels rose by 17.5 percent (average for Eastern Europe, 10.3 percent). Noteworthy is that export prices for Soviet machinery rose more rapidly than did import prices that year. Thus, in contrast to 1975, the 5-percent gain in Soviet terms of trade was not solely the result of adjusting raw materials prices to the international level; it also derived from a healthy price increase for machinery.

We are unable to provide sufficient information on the development of prices in 1977 and 1978 because Soviet statistics substantially reduced the number of positions published with data on both value and volume.

Data on volume are lacking mainly for homogeneous bulk goods such as petroleum, coal, gas, crude ore, wheat and so forth. In other words, information was cut back for the very commodity groups in which sharp price increases must have occurred in 1977 and 1978 as well. This could be an indication that the official statistics might have been concerned with concealing the scope of price increases. GDR statistics that record imports of Soviet crude oil, for example -- the USSR publishes figures on crude oil and crude oil products -- serve to fill in only an infinitesimally small part of the gap. These scattered items of information do not help.

But another reason for the secrecy may be to obstruct the view of the Western countries with regard to the CEMA integration processes that are presently concentrating on the energy sector. For example, suppression of data on the volume of fuel deliveries has made it virtually impossible to keep track of the effects of the impending short energy supply in CEMA on Soviet deliveries to the smaller East European countries.

Using the requisite caution, one can arrive at an idea of the increase in volume in trade between the two countries on the basis of the discussed development of prices. Since Soviet export prices lagged behind import prices for the 1956-1970 period, given an increase in imports from the GDR averaging 7 percent, exports had to grow each year by an average of 11 percent in order to achieve an interim balance of trade. This trend continued in a less pronounced form in the years between 1971 and 1974.

The turn of the year from 1974 to 1975 represents a turning point in the bilateral economic relations of the two countries. Up to that point, GDR deliveries could be considered pacesetters for the development of bilateral relations, as shown by the relationship between the growth rates for exports and imports in the 1956-1974 period. The declining terms of trade, as well as decreased agricultural exports, were forcing the USSR to step up its deliveries substantially in the machinery and raw materials sectors. The situation has been reversed since 1975, for the terms of trade have shifted in favor of the USSR to an extent that the creeping but steady worsening of the USSR's terms of trade in the 1960's has presumably been compensated for in the meantime. Thus, the rate of increase in the volume of Soviet exports continues to be lower than that for imports. While the latter increased in all sectors (except for building materials) in 1975 and 1976, Soviet agricultural exports and food imports showed sharp declines in both of these years. Also noteworthy is the reluctance of the GDR in 1976 to import Soviet ores and metals, plus products of the chemical industry. In any event, from the standpoint of the goods structure the price shifts in Soviet trade with the GDR have led to an even greater complementarity of the already pronounced complementary relationship in Soviet foreign trade with the GDR. Soviet exports are concentrating even more narrowly on raw materials, mainly fuels. The fuels component rose from 18.3 percent in 1974 to 32 percent in 1978 -- chiefly as a result of the price increase. The proportion of machine deliveries dropped once again to less than 20 percent. Apart from the last commodity group in the Soviet classification -- the composition of which is unknown -- only raw materials of agricultural origin destined for non-nutritional uses remain to be mentioned (an 8.0-percent share).

Also to be noted on the import side is a continuing trend toward concentration on certain commodity groups. The machinery component rose from 62 percent in 1974 to nearly 70 percent in 1978. The other commodity groups declined proportionately. Industrial consumer goods accounted for less than 15 percent of Soviet imports from the GDR, and chemical products less than 5 percent.

Since additional sharp price increases can be expected in the raw materials sector in the very near future, this extreme complementarity of foreign trade structures exposes the GDR to the danger of a further worsening of terms of trade in its dealings with the USSR.

2.4 Change in Soviet Terms of Trade Up to 1980 -- A Forecast

If we are to calculate the price changes that occurred in Soviet foreign trade in 1977 and 1978, we must depend upon estimates that are based on other sources and other methods. To be sure, the advantage of the following exercise is that it also permits a forecast.

We have already seen that Soviet foreign trade prices do not follow the precise pattern prescribed by the price formula as applied to world market prices. There can be several reasons for this. As has already been noted, the deviations may be caused by the virtual impossibility of documenting world market prices for some commodity groups. And finally, deviations from the price model can occur especially for the goods that are exchanged within CEMA under the terms of medium- and longer-range production specialization agreements. It has become known that the USSR suggests to its partners that they generally accept Soviet wholesale prices as a pricing basis for goods that come under these agreements. Moreover, as we have already mentioned, the price calculated according to the price formula is merely a basis for negotiation and is not binding upon the partners.

Despite these and other aforementioned causes that may be responsible for a price bias, we may nevertheless assume that price changes in Soviet foreign trade on the whole are following the line established by the world market trend, first of all because the inflationary developments have been taking place predominantly in the raw materials sector in which world market prices are relatively easy to document reliably. In the second place, the course of price reforms in the CEMA countries themselves makes a case for assuming a closer connection between world market and internal CEMA prices than was true in the 1960's. The reform measures instituted in the 1960's were concentrated on establishing price relationships that corresponded to national economic cost structures, while the international pricing connection moved into the foreground of price policy considerations once trade between East and West started to expand -- but at the very latest in the fall of 1973, at the time of the OPEC resolutions. This tendency of course applies in different degrees to the individual CEMA countries, and least of all to the USSR, which is scarcely affected by events in the international price arena because of its minimal interdependence with the world economy. However, since Soviet exports consist in large measure of raw materials -- with the USSR profiting from increases in their price -- international market prices adjusted according to the formula are likely to prevail, especially in USSR trade with its East European neighbors.

For these reasons, we have ventured an estimate of the 1977 and 1978 price changes that can no longer be calculated from the individual categories of Soviet statistics and a forecast of price changes that might occur by 1980 according to the price model (Table 3). We based our calculations on UN data on the development of world market prices, broken down into six commodity groups. Taking into account the importance assigned to these groups for Soviet exports to and imports from the GDR, we obtain two rows of hypothetical price indexes (columns 2 and 3). They show the price changes for Soviet exports and imports that would occur in the event that world market prices were to take direct effect in trade between the USSR and the GDR. Since Soviet exports are heavy on raw materials, while imports consist almost exclusively of manufactured goods, the growth rates of the export prices calculated in this way far exceed those of the import prices (of columns 1,2 and 3). Columns 5 and 6 are obtained by adjusting these prices according to the ruble/dollar rate. As we know, the price formula provides for a delay in carrying world market prices over to internal CEMA trade. Thus, if we apply the sliding price formula to these two rows of indexes, we obtain the indexes of export and import prices as they would have developed -- or will continue to develop -- in Soviet trade with the GDR according to the price model (columns 7 and 8). The terms-of-trade index is obtained by dividing the export price index by the import price index (column 9).

In columns 10 and 11 the reader finds the unit-value indexes which we computed directly from Soviet foreign trade statistics and which can be compared to the "model indexes" for the years from 1975 to 1977. But it appears that the "model indexes" for Soviet export and import prices somewhat exceed the "empirical" indexes. According to the price formula, Soviet export prices would have to have climbed by a total of 64 percent in the 1975-1976 period -- value and volume data taken from Soviet statistics revealed a price increase of 51 percent. The difference is similar with import prices (36 percent compared to 24 percent). The reason for this deviation may be that bilateral dealings are taking the form of barter transactions, with the consequence that if one partner refrains from applying the full price increases possible under the formula, the other side may reciprocate. A procedure such as this would also be in the interest of the USSR, which -- as a creditor of the GDR -- is concerned about the transfer ruble's loss of purchasing power. Of course it is also possible that the CEMA countries are going by other price indexes in their negotiations -- the import price index, for example.[18]

If this assessment gives a correct picture of the future trend as well, the USSR's terms of trade with the GDR will have improved by a total of 46 percent by 1980. This means that the growth rate of GDR exports would have to surpass that of imports from the GDR by 46 percent for the 1975-1980 period if the trade balance of the two countries were to be evened up by 1980. Consequently, the improvement of Soviet terms of trade defines a potential burden for the GDR economy. This potential burden will become a real one to the extent that the GDR steps up its export efforts in order to counter the foreign trade indebtedness caused by the shift in prices.

3. Price Changes and Burden on GDR Economy

Given certain preconditions, we can roughly estimate the burdens that will be placed on the GDR in the course of the price shifts. Relying on existing data and estimates, we assume the following:

The USSR's terms-of-trade gain vis-a-vis the GDR will amount to a total of 46 percent in the 6 years between 1975 and 1980 (or an average of 6.5 percent per year);

GDR imports from the USSR will increase by 2 percent per year in real terms;

In 1974 the GDR exported (and imported) approximately 10 percent of its national income to the (from the) USSR (incidentally, the trade balance between the two countries was almost even at that time).

If we further assume the simple fact that exports and imports and the terms of trade change at a constant rate over a period of time, the potential burden can be calculated according to the following formula:

$$\text{Potential burden} = 0.1\, Y_0 \left(qp\,\frac{(qp)^6 - 1}{pq - 1} - q\,\frac{q^6 - 1}{q - 1} \right)$$

$$= 0.1 \cdot 135.78 \cdot 1{,}665 = \text{M } 22.61 \text{ billion.}^{20}$$

Y_0 = the GDR national income in 1974 (= M 135.78 billion)

$q = 1.02$ growth factor of GDR imports from USSR

$p = \sqrt[6]{1.46} = 1.065$ average annual rate of change in Soviet terms-of-trade gain

Just to give some idea of the scope or magnitude of the potential burden: The sum of M 22.6 billion is about one-sixth of the increase in national income that can be expected in the years from 1975 to 1980, and it corresponds to 90 percent of the amount spent by GDR industry on gross investments in 1978.

In the past, the GDR has reacted to these foreign trade burdens imposed by its most important partner not by accelerating its exports but by cutting back on its imports: Its volume of imports from the USSR grew by 3.7 percent in the years from 1971 to 1974, but imports from the USSR stagnated in the 1975-1977 period (see Table 4). GDR exports would have to have climbed 10.3 percent faster than imports to balance the improvement in Soviet terms of trade in this period. In fact, they increased by only 4.5 percent, thus covering only about 40 percent of the unfavorable price effect up to the end of 1977.

It can of course not be ruled out that the USSR has been delaying the price adjustment since 1977, carrying it over into the 1980's. To be sure, the price increases that would come due at that time would coincide with the oil price increases announced by OPEC on 1 July 1979 and similarly postponed by the price formula. This would then place an even greater strain on the economy of the GDR.

4. Final Considerations

1. As was shown by Study I, the large GDR terms-of-trade losses in its trade with the Soviet Union since 1975 can be traced mainly to the extraordinarily high proportion of finished goods in deliveries by the GDR. Of course, it is precisely this structure that helped the GDR gain particularly favorable terms of trade in its dealings with the USSR in the 1960's.

2. Of all the CEMA countries, the GDR was hit the hardest by the change in Soviet foreign trade prices. Its greatest indebtedness to the USSR also coincided with its greatest price drops. In the period from 1975 to 1978, the USSR acquired a surplus trade balance totaling 3.019 billion rubles with the countries of Eastern Europe; the GDR accounted for more than half of this surplus, in the amount of 1.64 billion rubles.

3. Compared to the GDR's indebtedness to the West, its debts owed to the USSR have indeed reached only a modest level. Nevertheless, from the viewpoint of the Eastern state-trade countries and their normally strict bilateralism, the level of indebtedness that has meanwhile been reached has to be termed unusually high.[23] It involves the danger that the GDR might acquiesce to Soviet cooperation proposals which would have been rejected under different circumstances. The GDR's delivery arrears and the pressure resulting from its debts are not exactly favorable conditions for an urgently needed revision of its assortment of exports to the USSR.

4. The GDR's rising demand for raw materials and the further price increases that can be expected, especially in the energy sector, are the two components that will probably determine the minimal rate of increase in Soviet deliveries to the GDR in the immediate future. Given present circumstances, it seems more than doubtful that the GDR will be able to draw even with this -- minimal -- growth in Soviet deliveries by increasing its own exports, largely composed of manufactured goods.

5. The GDR could ward off the foreign economic debts it has been rolling up for years only if it were to succeed in producing substantial savings in specific materials consumed and in mobilizing additional production

reserves despite a decline in investment growth and despite cutbacks in private and public consumption. The overall economic indicators suggest that it will not be easy for the GDR to meet this challenge.

The GDR's overall economic situation has been analyzed elsewhere,[24] so we shall present only a few theses here:

a) The growth rates of the national product and industrial production have been declining since 1975. Although the slowing of economic growth can help slow imports of raw materials and fuels, on the other hand this will result in a lack of available goods at home that are needed to satisfy the steadily rising demands of consumers, investment requirements and the demands of foreign countries as GDR creditors.

The political leadership, which may have underestimated the effects of the "price shock," is hoping that so-called socialist intensification will bridge the gap between the goals it is seeking and the GDR economy's low level of efficiency: Economic efficiency is to be increased by raising labor productivity while simultaneously eliminating jobs, by employing the most modern technologies and by accelerating scientific-technical progress, bu above all by reducing specific material consumption in all branches of production.

Countless material consumption norms have been revised downward in recent years with a view to a more efficient use of materials. Certain results have in fact been achieved since the beginning of the 1970's. For instance specific energy consumption declined by a total of 15 percent from 1971 to 1977, although no acceleration of energy conservation measures has been noted since 1974.[25]

b) For an elite political leadership corps which is pursuing socialist goals from the standpoint of its self-image, neglect of social policy sectors of the first order -- chiefly pensions for the aged and infirm and housing construction -- was no longer acceptable. Consequently, leading members of the SED leadership under Erich Honecker introduced at the Eighth SED Party Congress (1971) a relatively ambitious consumer and social policy which was essentially continued at the Ninth Party Congress (1976), even though the foreign economic situation had meanwhile changed radically following the price explosion on the raw materials markets. Indeed, consumption rose faster than the national product between 1971 and 1977, with the result that, despite a low level of investment activity, a considerable gap opened up between the national product which was produced and that which was consumed. To be sure, numerous reports on supply shortages, as well as the official slowing of consumption growth for the years 1978 and 1979, indicated that the economic and social-policy objectives formulated at both party congresses are being pursued only with limitations.

c) Official data for the 1971-1976 period reveal a worsening in terms of trade for GDR trade as a whole amounting to 12.1 percent.[26] In order to keep the trade balance even, exports would have had to exceed real growth by this amount. But real growth in exports was in fact only 6 percent greater than that of imports.[27]

d) As a consequence of this development, the trade balance accumulated since 1970 amounts to about 30 billion valuta marks (circa $ 8.5 billion). According to the latest calculations of the Vienna Institute for International Economic Comparisons, GDR indebtedness to the West amounts to about 7.6 billion U.S. dollars.[28]

e) The GDR economy is less prepared than that of any other CEMA country for an export offensive since, in contrast to other East European countries,[29] the large increases in imports from the West at the beginning of the 1970's did not contribute to an increase in the growth of investments in industry.[30] These investments were even below the national income growth rates in the first half of the 1970's.[31] With the onset of the current five-year plan, investment growth increased somewhat. Today's investment program is concentrated on industry, mainly on the less productive but vital energy sector. With the exception of housing construction, important sectors of the infrastructure are being neglected, as was the case in the 1950's and the first half of the 1960's.

On the whole, the Soviet price increases burst upon the GDR under circumstances that were quite unfavorable: Taking domestic policy and foreign policy factors into consideration, the GDR leadership had reoriented its economic policy in the direction of the individual and public consumer sphere and had pursued goals that would have had an adverse effect on the growth potential of the economy anyway. Then, when the disruptive foreign economic factors began to take effect, it became evident that there was very little room to maneuver, and it appears that those responsible for the GDR's economic policy greatly underestimated the full scope of the resulting burdens -- incidentally, this is also true in other East European countries. Even the official guiding principle often heard of late -- only that which has previously been produced can be consumed -- is based on optimistically drawn preconditions. For in the future, not even all of that which is being produced can be made available for use. Repayment of the debts that have been accumulating in the meantime and an expected further worsening of the terms of trade will exact their tribute.

Table 1. USSR Share of GDR Imports of Selected Goods or Groups of Goods[1] in 1977

	In Percent
Natural gas	100
Petroleum	89.3
Hard coal, coke	59.2
Timber	99.0
Black metal ores[2]	65.2
Structural steel[3]	72.6
Bar steel	68.6
Thick sheet metals, thin sheet metals[4]	75.4

---

1) The goods listed represent about 40 percent of Soviet deliveries to the GDR

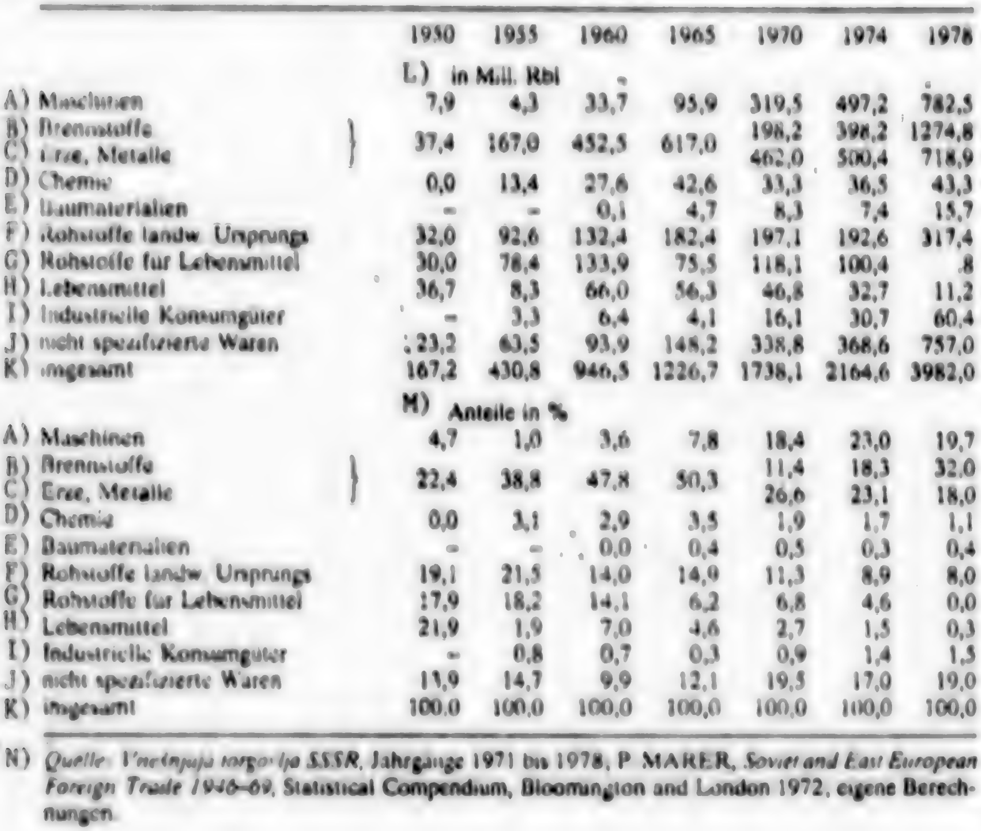
2) Iron, manganese and chromium ores

3) Including rails and fittings

4) Hot-rolled thin sheet metals

Sources: J. Bethkenhagen, H. Lambrecht, see footnote 1.

Table 1-X. USSR Exports to GDR



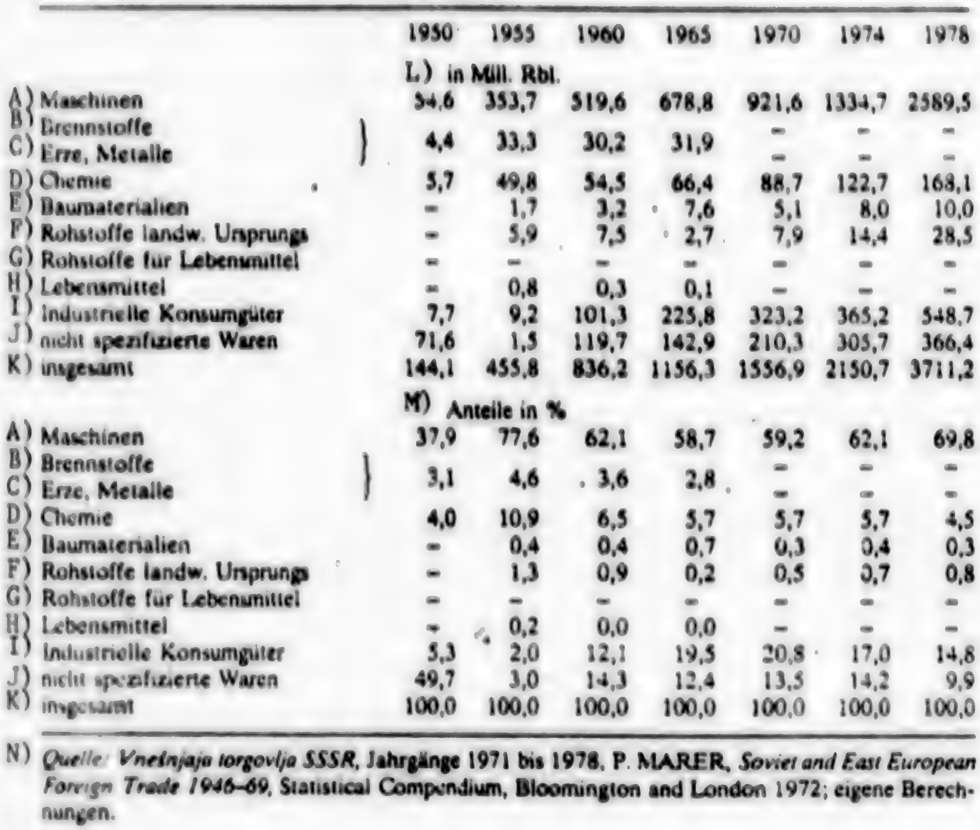
	1950	1955	1960	1965	1970	1974	1978
L) in Mill. Rbl							
A) Maschinen	7,9	4,3	33,7	95,9	319,5	497,2	782,5
B) Brennstoffe	37,4	167,0	452,5	617,0	198,2	398,2	1274,8
C) Erze, Metalle					462,0	500,4	718,9
D) Chemie	0,0	13,4	27,6	42,6	33,3	36,5	43,3
E) Baumaterialien	–	–	0,1	4,7	8,3	7,4	15,7
F) Rohstoffe landw. Ursprungs	32,0	92,6	132,4	182,4	197,1	192,6	317,4
G) Rohstoffe für Lebensmittel	30,0	78,4	133,9	75,5	118,1	100,4	.8
H) Lebensmittel	36,7	8,3	66,0	56,3	46,8	32,7	11,2
I) Industrielle Konsumgüter	–	3,3	6,4	4,1	16,1	30,7	60,4
J) nicht spezifizierte Waren	23,2	63,5	93,9	148,2	338,8	368,6	757,0
K) insgesamt	167,2	430,8	946,5	1226,7	1738,1	2164,6	3982,0
M) Anteile in %							
A) Maschinen	4,7	1,0	3,6	7,8	18,4	23,0	19,7
B) Brennstoffe	22,4	38,8	47,8	50,3	11,4	18,3	32,0
C) Erze, Metalle					26,6	23,1	18,0
D) Chemie	0,0	3,1	2,9	3,5	1,9	1,7	1,1
E) Baumaterialien	–	–	0,0	0,4	0,5	0,3	0,4
F) Rohstoffe landw. Ursprungs	19,1	21,5	14,0	14,9	11,3	8,9	8,0
G) Rohstoffe für Lebensmittel	17,9	18,2	14,1	6,2	6,8	4,6	0,0
H) Lebensmittel	21,9	1,9	7,0	4,6	2,7	1,5	0,3
I) Industrielle Konsumgüter	–	0,8	0,7	0,3	0,9	1,4	1,5
J) nicht spezifizierte Waren	13,9	14,7	9,9	12,1	19,5	17,0	19,0
K) insgesamt	100,0	100,0	100,0	100,0	100,0	100,0	100,0

N) *Quelle: Vnešnjaja torgovlja SSSR*, Jahrgänge 1971 bis 1978, P. MARER, *Soviet and East European Foreign Trade 1946–69*, Statistical Compendium, Bloomington and London 1972, eigene Berechnungen.

Key:

A. Machinery
B. Fuels
C. Ores, Metals
D. Chemistry
E. Building materials
F. Raw materials of agricultural origin
G. Raw materials for foodstuffs
H. Foodstuffs
I. Industrial consumer goods
J. Unspecified goods
K. Total
L. In millions of rubles
M. Percentages
N. Sources: VNESHNYAYA TORGOVLYA SSSR, 1971 to 1978;
P. Marer, "Soviet and East European Foreign Trade, 1946-69," statistical compendium, Bloomington and London, 1972;
Own calculations

Table 1-M. USSR Imports from GDR



	1950	1955	1960	1965	1970	1974	1978
	L) in Mill. Rbl.						
A) Maschinen	54,6	353,7	519,6	678,8	921,6	1334,7	2589,5
B) Brennstoffe	4,4	33,3	30,2	31,9	–	–	–
C) Erze, Metalle					–	–	–
D) Chemie	5,7	49,8	54,5	66,4	88,7	122,7	168,1
E) Baumaterialien	–	1,7	3,2	7,6	5,1	8,0	10,0
F) Rohstoffe landw. Ursprungs	–	5,9	7,5	2,7	7,9	14,4	28,5
G) Rohstoffe für Lebensmittel	–	–	–	–	–	–	–
H) Lebensmittel	–	0,8	0,3	0,1	–	–	–
I) Industrielle Konsumgüter	7,7	9,2	101,3	225,8	323,2	365,2	548,7
J) nicht spezifizierte Waren	71,6	1,5	119,7	142,9	210,3	305,7	366,4
K) insgesamt	144,1	455,8	836,2	1156,3	1556,9	2150,7	3711,2
	M) Anteile in %						
A) Maschinen	37,9	77,6	62,1	58,7	59,2	62,1	69,8
B) Brennstoffe	3,1	4,6	3,6	2,8	–	–	–
C) Erze, Metalle					–	–	–
D) Chemie	4,0	10,9	6,5	5,7	5,7	5,7	4,5
E) Baumaterialien	–	0,4	0,4	0,7	0,3	0,4	0,3
F) Rohstoffe landw. Ursprungs	–	1,3	0,9	0,2	0,5	0,7	0,8
G) Rohstoffe für Lebensmittel	–	–	–	–	–	–	–
H) Lebensmittel	–	0,2	0,0	0,0	–	–	–
I) Industrielle Konsumgüter	5,3	2,0	12,1	19,5	20,8	17,0	14,8
J) nicht spezifizierte Waren	49,7	3,0	14,3	12,4	13,5	14,2	9,9
K) insgesamt	100,0	100,0	100,0	100,0	100,0	100,0	100,0

N) *Quelle: Vnešnjaja torgovlja SSSR*, Jahrgänge 1971 bis 1978, P. MARER, *Soviet and East European Foreign Trade 1946–69*, Statistical Compendium, Bloomington and London 1972; eigene Berechnungen.

Key:

- A. Machinery
- B. Fuels
- C. Ores, Metals
- D. Chemistry
- E. Building materials
- F. Raw materials of agricultural origin
- G. Raw materials for foodstuffs
- H. Foodstuffs
- I. Industrial consumer goods
- J. Unspecified goods
- K. Total
- L. In millions of rubles
- M. Percentages
- N. Sources: Same as in Table 1-X.

Table 2. Price Indexes in USSR Trade with the GDR and Eastern Europe, 1955-1970

	1955	1956	1957	1958	1959	1960	1961	1962	1963	1064	1965	1966	1967	1968	1969	1970
C) DDR																
D) Maschinen, Anlagen und Transportmittel (ETN1)																
Exporte A)	(112)	(111)	(101)	89	99	100	90	89	96	97	102	98	84	84	94	87
Importe B)	95	92	100	99	100	100	102	108	107	110	114	115	112	117	122	126
E) Brennstoffe und Metalle (ETN2)																
Exporte	91	96	109	100	99	100	101	100	101	100	92	82	83	84	82	82
F) Rohstoffe landw. Ursprungs nicht für Nahrungszwecke (ETN5)																
Exporte	119	117	102	101	98	100	98	100	99	99	99	100	99	94	96	95
G) Rohstoffe landw. Ursprungs für Nahrungszwecke (ETN7)																
Exporte	112	111	107	100	106	100	98	101	100	98	87	94	103	103	102	101
H) Insgesamt (ETN1–9)																
Exporte	104	107	108	100	100	100	99	99	100	99	94	89	88	88	89	88
Importe	98	94	101	98	100	100	102	105	105	109	110	109	109	114	115	120
Terms of Trade	106	114	107	102	100	100	97	94	95	91	85	82	81	77	77	73
I) OSTEUROPA insgesamt																
Exporte	103	104	104	101	100	100	100	99	100	100	95	90	89	90	90	89
Importe	101	99	102	100	101	100	101	103	103	106	107	106	107	110	110	112
Terms of Trade	102	105	102	101	99	100	99	96	97	94	89	85	83	82	82	79

Quelle: E. A. HEWETT, *Foreign Trade Prices in the CMEA*, Cambridge (G. B.), 1974.
J)

Key:

A. Exports
B. Imports
C. GDR
D. Machinery, Installations and Means of Transport (ETN 1)
E. Fuels and Metals (ETN 2)
F. Raw Materials of Agricultural Origin for non-Nutritional Purposes (ETN 5)
G. Raw Materials of Agricultural Origin for Nutritional Purposes (ETN 7)
H. Total (ETN 1-9)
I. Total for Eastern Europe
J. Source: E.A. Hewett, "Foreign Trade Prices in the CMEA [CEMA]," Cambridge (Great Britain), 1974.

Table 2-4. USSR Exports to GDR at Current Prices, Annual (Average Annual) Growth Rates in Percent

		1956–60	1961–65	1966–70	1971–74	1975–78	1971	1972	1973	1974	1975	1976	1977	1978
A)	Maschinen	50,9	23,3	27,2	11,7	12,0	6,1	−8,8	42,4	12,8	13,8	15,3	12,5	6,6
B)	Brennstoffe	22,1	6,4	1,4	19,0	33,8	9,6	11,8	8,2	51,4[1]	62,2	34,5	25,6	25,8
C)	Erze, Metalle				2,0	9,5	3,2	−1,8	2,6	4,1	76,7	−0,1	−15,3	−3,9
D)	Chemie	15,5	9,1	−4,8	2,3	4,4	10,0	−5,0	−0,5	5,3	40,4	1,7	−21,7	2,0
E)	Baumaterialien	–	116,0	12,0	−2,8	20,7	−9,9	−30,8	24,0	15,4	59,3	1,5	10,6	[illegible]
F)	Rohstoffe landw. Ursprungs	7,4	6,6	1,6	−0,6	13,3	−6,5	−1,5	−6,7	13,7	61,6	−14,3	19,5	−0,4
G)	Rohstoff. für Lebensmittel	11,3	−10,8	9,4	−4,0	−70,1	17,1	−44,8	−4,7	37,8	−7,0	−79,8	352,0	−99,1
H)	Lebensmittel	51,4	−3,1	−3,6	−8,6	−23,5	−23,2	−22,2	−6,3	25,2	27,9	−39,3	−43,2	−22,5
I)	Industrielle Konsumgüter	14,2	−8,5	31,5	17,5	18,4	−0,1	−8,9	45,8	43,8	42,1	23,8	−12,0	27,2
J)	nicht spezifizierte Waren	8,1	9,6	18,0	2,1	19,7	−22,0	17,4	10,2	7,9	−10,7	34,9	45,2	17,5
K)	insgesamt	17,0	5,3	7,2	5,6	16,5	−1,3	−2,6	11,1	16,6	37,7	8,0	13,8	8,8

L) [1] ohne Erdgas, dessen Lieferung 1974 einsetzte; 31,4%

Quelle: wie 1-X

Key:

A. Machinery
B. Fuels
C. Ores, Metals
D. Chemistry
E. Building materials
F. Raw materials of agricultural origin
G. Raw materials for foodstuffs
H. Foodstuffs
I. Industrial consumer goods
J. Unspecified goods
K. Total
L. Excluding natural gas, deliveries of which began in 1974; 31.4 percent

Source: Same as Table 1-X.

Table 2-Y. USSR Imports from GDR at Current Prices, Annual (Average Annual) Growth Rates in Percent

	1956–60	1961–65	1966–70	1971–74	1975–78	1971	1972	1973	1974	1975	1976	1977	1978
A) Maschinen	8,0	5,5	6,3	9,7	18,0	6,3	24,2	7,2	2,3	25,0	6,0	12,6	30,0
B) Brennstoffe	−1,9	1,1	–	–	–	–	–	–	–	–	–	–	–
C) Erze, Metalle				–	–	–	–	–	–	–	–	–	–
D) Chemie	1,8	4,0	6,0	8,4	8,2	23,3	9,7	−0,1	2,3	30,2	8,0	−4,6	2,2
E) Baumaterialien	13,5	18,9	−7,7	11,9	5,7	45,9	5,3	−1,3	2,6	5,0	−2,4	14,4	6,7
F) Rohstoffe landw. Ursprungs	4,9	−18,5	24,0	6,2	18,6	42,1	7,1	26,0	−4,6	44,0	43,2	12,0	−14,3
G) Rohstoffe fur Lebensmittel	–	–	–	–	–	–	–	–	–	–	–	–	–
H) Lebensmittel	−17,8	−19,7	–	–	–	–	–	–	–	–	–	–	–
I) industrielle Konsumguter	61,6	17,4	7,4	3,1	10,7	31,1	4,1	−7,4	−10,6	16,4	8,2	11,7	6,9
J) nicht spezifizierte Waren	140,1	3,6	8,0	9,8	4,6	−6,8	21,0	6,8	20,7	17,9	−5,5	4,0	3,4
K) insgesamt	12,8	6,8	6,1	8,4	14,6	11,0	17,8	3,6	2,0	22,9	5,2	10,3	21,0

L) *Quelle* wie 1-X

Key:

A. Machinery
B. Fuels
C. Ores, Metals
D. Chemistry
E. Building materials
F. Raw materials of agricultural origin
G. Raw materials for foodstuffs
H. Foodstuffs
I. Industrial consumer goods
J. Unspecified goods
K. Total
L. Source: Same as in Table 1-X.

Table 3. Model Calculation: Hypothetical Price Indexes and Terms-of-Trade Indexes in USSR Trade with the GDR

	A) Weltmarkt Index[1]	B) hypothetische Preisindizes bei direkter Übernahme der Weltmarktpreise 1970 = 100					H) Preisindizes nach Preismodell 1974 = 100			I) empirische Preisindizes		
		C) auf Dollarbasis		F) Umrechnungskurs[3]	G) auf Rubelbasis							
		D) Exporte[2]	E) Importe	$/Rbl	Exporte	Importe	Exporte	Importe	J) t.o.t.	Exporte	Importe	t.o.t.[7]
Jahr	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
1965	92	93	89	1,111	93	89						
1966	93	93	91	1,111	93	91						
1967	92	92	92	1,111	92	92						
1968	90	91	87	1,111	91	87						
1969	94	94	91	1,111	94	91						
1970	100	100	100	1,111	100	100						
1971	106	109	109	1,111	109	109						
1972	115	118	118	1,206	109	109						
1973	143	149	139	1,358	122	114						
1974	199	247	161	1,321	207	135	100	100	100	100	100	100
1975	212	261	181	1,386	209	146	158	132	119	141	120	119
1976	215	275	181	1,326	230	152	164	136	120	151	122	124
1977	234	298	196	1,356	244	164	190	146	130	166[8]	125[8]	134[8]
1978	243	310	204	1,460	236	155	219	157	140			
1979	253	322	121	1,50	238	157	243	167	146			
1980							251	172	146			

Erklärungen siehe nächste Seite (K)

Key:

- A. World Market Index[1]
- B. Hypothetical Price Indexes with Direct Transfer of World Market Prices for 1970 = 100
- C. On dollar basis
- D. Exports[2]
- E. Imports
- F. Conversion rate[3]; $/ruble
- G. On ruble basis
- H. Price Indexes According to Price Model
- I. Empirical Price Indexes
- J. Terms of Trade
- K. See following page for explanations

Explanations of Table 3:

Source: UN MONTHLY BULLETIN OF STATISTICS, June 1977, June 1978,
June 1979, Special Table G.
VNESHNYAYA TORGOVLYA SSSR, various years;
Study I, Table 7.

1) World market unit-value index for exports of developed and developing countries according to developed countries. A 4-percent price increase assumed for 1978 and 1979.

2) The indexes in Column 2 were obtained by weighing the UN price indexes defined for six commodity groups (food, etc; raw materials excluding fuels; fuels, etc; chemicals; machinery; other manufactures) against the shares of these groups in Soviet exports to the GDR in 1974. Only a rough conversion of the groups as defined by the SITC to those as defined by Soviet nomenclature was possible, thus involving certain sources of error. The calculation is analogous for imports (Column 3).

3) Conversion rate = conversion factors taken from the UN MONTHLY BULLETIN OF STATISTICS. For the first quarter of 1978 and 1979, according to data of the Austrian National Bank; we assumed an unchanged rate for the remainder of those years.

4) Column 7 is derived from Column 5 and according to the following determination of $p_{1974} = 100$ as a base:

$$\frac{1}{5} \sum_{1965}^{1969} p_i = \tilde{p}_{1974} \quad i_{1974} = 100$$

$$\frac{1}{3} \sum_{1972}^{1974} p_i = \tilde{p}_{1975} \quad i_{1975} = \frac{\tilde{p}_{1975}}{\tilde{p}_{1974}} \cdot 100$$

$$\frac{1}{5} \sum_{1971}^{1975} p_i = \tilde{p}_{1976} \quad i_{1976} = \frac{\tilde{p}_{1976}}{\tilde{p}_{1974}} \cdot 100$$

$$\frac{1}{5} \sum_{1973}^{1976} p_i, \text{etc} = \tilde{p}_{1977} \quad i_{1977} = \frac{\tilde{p}_{1977}}{\tilde{p}_{1974}} \cdot 100$$

[Explanation continued on following page]

[Explanation of Table 3, continued]

p = price indexes from Column 5

$\tilde{p}$ = average world market prices (based on rubles) according to price formula in effect at the time

i = price indexes from Column 7

The calculation is analogous for imports.

5. For a calculation of the empirical indexes in 1977, see Study I, p 54, especially Table 7.

Table 3-X. Price Development in USSR Foreign Trade with GDR, Exports, Annual (Average Annual) Growth Rates in Percent

	1956–60	1961–65	1966–70	1971–74	1971	1972	1973	1974	1975	1976
A) Maschinen	−2,2	0,4	−3,1	0,5	2,6	4,3	−1,2	−3,3	9,0	9,3
B) Brennstoffe	1,9	−1,6	−2,3	7,4	1,0	6,4	0,5	23,1	56,4	17,5
C) Erze, Metalle				0,6	1,0	0,6	−0,1	1,1	56,5	0,8
D) Chemie	.	.	.	−1,1	2,4	−6,3	−4,3	4,7	16,8	5,8
E) Baumaterialien	.	.	.	−2,4	−4,6	−7,4	−0,1	2,9	22,0	−0,3
F) Rohstoffe landw. Ursprungs	.	.	.	1,5	3,7	2,6	−0,2	−0,1	54,1	5,1
G) Rohstoffe für Lebensmittel	.	.	.	2,1	0,3	0,4	4,5	3,4	54,9	5,9
H) Lebensmittel	.	.	.	0,3	2,4	−2,0	0,3	0,3	45,2	0,5
I) Industrielle Konsumgüter				−5,8	−9,8	−10,0	−0,9	−2,1	6,1	−4,5
J) insgesamt	−0,8	−1,2	−1,3	1,8	1,6	2,1	−0,1	3,6	41,0	7,3

K) *Quelle* für die Jahre 1956–70: E. A. HEWETT, *Foreign Trade Prices in the Council for Mutual Economic Assistance*, Cambridge University Press, 1974, pp. 70; für die Jahre 1971–76, *Vnešnjaja torgovlja SSSR*, 1971–1978, Berechnungen nach der unit value Methode, vgl. Studie I, Abschnitt 6.

Key:

A. Machinery
B. Fuels
C. Ores, Metals
D. Chemistry
E. Building materials
F. Raw materials of agricultural origin
G. Raw materials for foodstuffs
H. Foodstuffs
I. Industrial consumer goods
J. Total
K. Source: For the 1956-1970 period, E.A. Hewett, "Foreign Trade Prices in the Council for Mutual Economic Assistance," Cambridge University Press, 1974, p 70;

For the 1971-1976 period, VNESHNYAYA TORGOVLYA SSSR, 1971-1978;

Calculations according to unit-value method, cf Study I, Section 6.

Table 3- . Price Development in USSR Foreign Trade with the GDR, Imports, Annual (Average Annual) Growth Rates in Percent

	1956-60	1961-65	1966-70	1971-74	1971	1972	1973	1974	1975	1976
A) Maschinen	1,0	2,7	2,0	3,0	5,6	1,1	3,0	2,5	22,5	2,9
B) Brennstoffe										
C) Erze, Metalle	.	.	.	–	–	–	–	–	–	–
D) Chemie	.	.	.	–0,5	1,2	–7,5	7,8	–2,6	11,1	–3,5
E) Baumaterialien	.	.	.	–7,0	–13,9	–13,8	3,7	–2,9	4,2	–1,6
F) Rohstoffe landw. Ursprungs	.	.	.	–0,0	–0,1	–0,5	0,2	0,4	9,4	19,3
G) Rohstoffe für Lebensmittel	.	.	.	. –	–	–	–	–	–	–
H) Lebensmittel	–	–	–	–	–	–	–	–	–	–
I) Industrielle Konsumgüter	.	.	.	2,4	1,2	2,2	3,4	2,9	14,1	–1,6
J) insgesamt	0,4	1,9	1,8	2,6	4,1	0,7	3,4	2,2	19,9	1,7

K) *Quelle:* wie 3-X

Key:

A. Machinery
B. Fuels
C. Ores, Metals
D. Chemistry
E. Building materials
F. Raw materials of agricultural origin
G. Raw materials for foodstuffs
H. Foodstuffs
I. Industrial consumer goods
J. Total
K. Source: Same as in Table 3-X.

Table 3-T. Development of Terms of Trade in USSR Trade with the GDR

	1956–60	1961–65	1966–70	1971–74	1971	1972	1973	1974	1975	1976
A) Maschinen	−3,2	−2,2	−5,0	−2,4	−2,8	3,1	−4,1	−5,6	−11,0	6,0
B) Brennstoffe	.	.	.	–	–	–	–	–	–	–
C) Erze, Metalle	.	.	.	–	–	–	–	–	–	–
D) Chemie	.	.	.	−0,6	1,2	0,9	−11,2	7,5	5,1	9,7
E) Baumaterialien	.	.	.	5,0	10,8	7,5	−3,7	6,0	17,1	1,5
F) Rohstoffe landw. Ursprungs	.	.	.	1,5	4,0	3,2	−0,5	−0,6	40,9	−11,8
G) Rohstoffe fur Lebensmittel	.	.	.	–	–	–	–	–	–	–
H) Lebensmittel	.	.	.	–	–	–	–	–	–	–
I) Industrielle Konsumguter	.	.	.	−8,0	−10,9	−11,9	−4,1	−4,9	−7,0	−2,7
J) Insgesamt	−1,2	−3,1	−0,4	−0,8	−2,4	1,4	−3,4	1,4	17,6	5,5

K) *Quelle:* wie 3-X

Key:

A. Machinery
B. Fuels
C. Ores, Metals
D. Chemistry
E. Building materials
F. Raw materials of agricultural origin
G. Raw materials for foodstuffs
H. Foodstuffs
I. Industrial consumer goods
J. Total
K. Source: Same as in Table 3-X.

Table 4. USSR Foreign Trade with GDR (Annual Average Growth Rates in Percent)

	USSR Exports GDR Imports		USSR Imports GDR Exports		Soviet Terms of Trade
	nominal	real	nominal	real	
1971-74	5.6	3.7	8.4	5.6	- 0.8
1975	37.7	-2.3	22.9	2.5	17.6
1976	8.0	0.6	5.2	3.4	5.5
1977	13.8	2.4	10.3	7.6	8.4
1975-77	19.1	0.2	12.5	4.5	10.3

Source: VNESHNYAYA TORGOVLYA SSSR, 1971-1977, own calculations.

FOOTNOTES

1. Cf J. Bethkenhagen, H. Lambrecht, "Positive and Negative Growth Effects of Integration of the GDR Into CEMA," paper delivered at the 12th Convention of GDR-Researchers in Lerbach in 1979.

2. Essentially insulation materials

3. Mainly paper

4. Since the percentage of unspecified goods in Soviet exports to the other East European countries is similarly high, it is improbable that this group of goods contains the uranium deliveries from the GDR. The GDR uranium deliveries presumably do not show up at all in the foreign trade statistics of either country, since the uranium ore is mined by the Wismut AG, a Soviet corporation with GDR participation (since 1954).

4a. Published data reflect the actual development of trade between the two countries starting only with 1954, because until that time some of the GDR's industrial enterprises were owned by the Soviet occupying power. Consequently, their dealings with the USSR were not considered foreign trade relations.

5. Cf bibliography.

6. Cf, among others, G. Graebig et al, "Commodity/Cash Relationships in Socialist Economic Integration," (East) Berlin, 1975, p 79.

7. To be sure, the statistical reliability for the price indexes of this group is extremely poor.

8. E.A. Hewett, "Foreign Trade..., op cit pp 70.

9. VNESHNYAYA TORGOVLYA SSSR, 1918-1966, p 143.

10. S. Ausch, "Theory and Practice of CMEA Cooperation," Budapest, 1972, p 86.

11. E.A. Hewett, "Foreign Trade Prices... op cit, pp 91 and 197. Hewett combines his thoughts and Ausch's when he says: "It seems clear that, from the point of view of prices alone, the Soviet Union is not in a particularly favorable position in the present CMEA price system" (p 180).

12. Hewett frequently points out in his study the possibility of distortion in his data. To be sure, his indexes -- in contrast to ours -- are not linked together consecutively from year to year, so there is an arbitrary element in the selection of a base year. Moreover, his

sample quantities used to calculate unit-value positions are smaller than mine because his calculations took into account only those unit-value positions which were found in all years between 2 base years.

13. Calculated according to the indexes taken from UN statistics (MONTHLY BULLETIN OF STATISTICS, June 1978, Special Table G) which list price changes in dollars, adjusted for the "devaluation" of the dollar in relation to the ruble.

14. Cf Study I, Section 1.3, to assess regional price differences.

15. See Study I, sections 2.2 and 4.

16. See tables 1-X and 1-M.

17. Average for Eastern Europe, 39 percent; Bulgaria, 37 percent; CSSR, 39 percent; Poland, 41 percent; Hungary, 40 percent.

18. It is significant that both model indexes, the index of export prices and the index of import prices, exceed the corresponding empirical indexes. In any event, the terms-of-trade index for 1975-1977, which follows the price model, is closer to the empirical terms-of-trade index than are the export and import price indexes (see columns 9 and 12). A relatively modest divergence in the terms of trade is seen only for 1975 on the one hand and for 1976 and 1977 on the other.

19. Cf Study I, p 35 ff.

20. If q = 1.00, the potential burden amounts to M 20.71 billion.

21. If we assume that the national income increases by 4 percent per year.

22. $$\frac{\text{Growth rate (GR) of exports - GR of imports}}{\text{GR of terms of trade}} = \frac{4.5 - 0.2}{10.3} = 0.42$$

23. See Study I, pp 35-37.

24. K.C. Thalheim, Research Office for All-German Economic and Social Problems, FS ANALYSES, 1978, Vol 5. K.C. Thalheim, "The Economic Policy of the GDR in the Shadow of Moscow," Lower Saxony Land Headquarters for Political Education, Hannover, 1979. W. Seiffert, "Reform Is Overdue," WIRTSCHAFTSWOCHE, 1979, Vol 9 (26 February 1979), p 68 ff.

    R. Dietz, "The GDR Economy in the 1970's," OESTERREICHISCHE OSTHEFTE, Vol 20, Vienna, 1978, p 41 ff.

25. DIW WOCHENBERICHT, Vol 31, 1979.

26. Beginning in 1977, the GDR stopped publishing separate statistics on exports and imports.

27. From 1971 to 1976, the export volume rose by 62.9 percent, the import volume by 57.3 percent.

28. The indebtedness to the West was calculated from accumulated trade balance deficits taken from GDR statistics. Also considered, however, were net proceeds from transport, tourism and other transfers that were partially estimated, as well as the interest and compound interest on the net indebtedness as it rose from year to year. These figures do not yet take into account the development for 1979.

29. S. Gomulka, "Investment Imports, Technical Change and Economic Growth, Poland 1971-80," paper presented at the NASEES Annual Conference, 26-28 March 1977, Cambridge.

30. The proportion of machinery, installations and means of transport in GDR imports from the West (OEDC, including the FRG) declined from 27 percent in 1970 to 21.9 percent in 1975.

Source: "Project CMEA-Fortran Data Bank of Foreign Trade Flows and Balances of CMEA Countries 1950-75," Vancouver, 1977.

31. R. Dietz, "Investment Policy in the GDR," DEUTSCHLAND-ARCHIV, 1978, Vol 4, p 390 ff; reprinted in the Reprint Series of the Vienna Institute for International Economic Comparisons, No 38.

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7458
CSO: 2300

BRIEFS

SOVIET CROP DUSTERS LEAVE--The 20 Soviet Aeroflot AN-2 airplanes which had helped during the past 3 1/2 months with the Czechoslovak agriculture project of crop dusting 367,000 hectares of crops, left for Vilnius, USSR, on 20 June. In spite of unfavorable weather conditions this year, the Soviet aviators had managed to increase their performance by an average of 1,200 hectares per pilot, compared with last year. The Soviet pilots were bid farewell and thanked for their assistance by the CSSR Deputy Minister of Agriculture and Food J. Sabik, the CSSR Deputy Minister of Transportation J. Dykast and the Director of Slovair in Bratislava O. Hudoba, prior to their departure from Brno Airport. [Prague ZEMEDELSKE NOVINY in Czech 21 Jun 80 p 8]

CSO: 2400

ALBANIA

BRIEFS

NEW PORT UNDER CONSTRUCTION--Work has begun near the city of Vlore on the construction of a new port, one of the largest in the country with an annual processing capacity of over 4 million tons of freight. The site of the new port area will cover 111 hectares. It is expected that the main loading area will be completed by the end of this year and its construction will take about 120,000 cubic meters of quarry stone. It is expected that most of the work will be completed within the next 5-year period. When fully completed, its loading and unloading capacity will be greater than that of the port of Durres at present. [AU071555 Tirana Domestic Service in Albanian 1800 GMT 6 Jun 80 AU]

CSO: 2100

GERMAN DEMOCRATIC REPUBLIC

REGULATION GOVERNING FOREIGN TRADE ACTIVITY IN GDR PUBLISHED

East Berlin GESETZBLATT DER DEUTSCHEN DEMOKRATISCHEN REPUBLIC in German Part I No 10, Mar 80 pp 81-83

[Official text of "Fourth Implementing Regulation to the Decree on Management and conducting of Foreign Trade--Activity of Foreign Enterprises and Institutions in the German Democratic Republic in the Sphere of Foreign Trade and Responsibilities of the Special Foreign Trade Enterprises of the German Democratic Republic in this Sphere (Market Activity)" signed by Dr Beil, state secretary, for the minister of foreign trade]

[Text] Berlin, 5 February 1980--In the interest of an advantageous development and a deepening of relations between the states in the sphere of trade and goal-oriented scientific and commercial information about customers and consumers, foreign enterprises and institutions may become active in the GDR in accordance with this implementing regulation. Management and conducting of foreign trade (LEGAL GAZETTE I No 35 p 421) are determined as follows, on the basis of Article 6, section 1, 21 and 23, section 2 of the ordinance of 9 September 1976 in agreement with the managers of the appropriate central state organs.

Article 1

Area of Jurisdcition

This implementing regulation governs the trade activity of foreign enterprises and institutions in the GDR as well as the tasks of special GDR foreign trade enterprises with regard to services in this area. It also applies to instances when the GDR Chamber for Foreign Trade organizes services in accordance with Article 3, letter e.

Article 2

Special Foreign Trade Enterprises and Foreign Enterprises and Institutions

1. Special foreign trade enterprises, as described in this implementing regulation, include also those GDR economic units that are authorized to

provide services for foreign enterprises and institutions by virtue of their performance programs. These performance programs are to be announced by the special foreign trade enterprises.

3. Foreign enterprises and institutions, as described in this implementing regulation, include also establishments of foreign enterprises and institutions in the GDR that have been licensed in accordance with legal regulations.*

Article 3

Services

According to the implementing regulation, services for trade activities of foreign enterprises and institutions are:

a. The investigation into opportunities for sales and purchases,
b. the establishment of marketing conferences,
c. the preparation and realization of advertising measures,
d. the organization of participation in international fairs and exhibits,
e. the organization of special lectures, symposia, application conferences, special exhibits, technical days and similar events,
f. assumption of agencies,
g. the recognition of interests of foreign insurers in cases of damages in the GDR,
h. the establishment of controls of goods.

Article 4

Acceptance of Orders

Only special foreign trade enterprises and the GDR Chamber for Foreign Trade are authorized to accept and conduct activities in accordance with paragraph 3. As a matter of principle, other establishments and citizens of the GDR are not entitled to conduct such activities in the GDR. Exceptions need prior approval by the minister for foreign trade.

Article 5

Investigation into Opportunities for Sales and Purchases

The investigation into opportunities for sales and purchases in the GDR must be made by foreign trade enterprises who must come up with analyses and information in the areas of economics and trade in the GDR that will provide opportunities for foreign enterprises and institutions to make market assessments.

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* In effect, at the present time, are the ordinance of 22 December 1971, concerning the activity of foreign enterprises and institutions in the GDR (LEGAL GAZETTE II, 1972 No 3 p 25) and the first implementing regulation for this directive of 3 June 1972 (LEGAL GAZETTE II, No 4(p 463).

Article 6

Establishment of Marketing Conferences

The establishment of marketing conferences by the special foreign trade enterprises comprises, in particular, the preparation of concepts, plans and recommendations for the trade activity of foreign enterprises and institutions in the GDR.

Article 7

Preparations and Realization of Advertising Measures

1. The preparation and realization of advertising measures in the GDR concerns, in particular, the following services for foreing enterprises and institutions by the special foreign trade enterprises:

a. The preparation of advertising concepts and plans,
b. the organization of advertising measures of all kinds,
c. arranging orders for advertising in and through the media of all kinds, including the production of printed advertisements as well as the production and installation of long-lasting advertising materials,
d. the administration of advertising budgets.

2. The advertising measures must be in agreement with the customs and norms of the social life as well as the economic and social policie. of the GDR.

Article 8

Organization of Participation in International Fairs and Exhibits as Well as Special Exhibits

The special foreign trade enterprises must offer appropriate services for the organization of participation by foreign enterprises and institutions in international fairs and exhibits, special lectures, symposia, application conferences, special exhibits, technical days and similar events in the GDR. Of particular importance are:

a. Renting or providing exhibit areas, rooms, installations or equipment,
b. providing services related to fairs and exhibits,
c. projecting ideas and plans as well as the execution of plans,
d. advertising measures and services connected with participation.

Article 9

Assumption of Agencies

The assumption of agencies of foreign enterprises and institutions by the special foreign trade enterprises is accomplished through the use of trade representatives. These trade representatives must be members of the GDR business pool of trade representatives and trading brokers.

Article 10

Recognition of Interests of Foreign Insurers in Cases of Damages in the GDR

1. The recognition of the interests of foreign insurers in cases of damages in the GDR applies especially to the following services by foreign trade enterprises to foreign enterprises and institutions:

a. Establishment and certification of damages,
b. processing and adjustment of claims.

2. This implementing regulation does not affect the duties and jurisdiction of the GDR State Insurance when establishing and settling claims connected with transporting goods within the territory of the GDR.

Article 11

Establishment of Controls and Assessments

At the request of foreign enterprises and institutions, foreign trade enterprises, among other things, conduct controls of goods, assessments, tests, analyses, inspections.

Article 12

Contract Obligations

Principally, special foreign trade enterprises accept orders for services in the GDR from foreign enterprises and institutions on general conditions and conclude appropriate contracts. These general conditions must be announced upon request to foreign enterprises and institutions by the special foreign trade enterprises.

Article 13

Obligations for Cooperation

Within the framework of their programs for goods and services, economic units of the GDR are obligated to support the special foreign trade enterprises in their attempt to fulfill requests by foreign enterprises and institutions on the basis of appropriate contracts. This applies particularly to the issuance of opinions, to consultations and the realization of tasks when fulfilling the orders.

Article 14

Final Regulations

1. This implementing regulation will go into effect on 1 April 1980.

2. Simultaneously, the order of 23 July 1966 will be repealed. It deals with advertising orders in the GDR by firms or citizens from abroad, West Germany and West Berlin (LEGAL GAZETTE II, No 83 p 545).

3. In accordance with paragraph 3, state licenses issued under currently valid legal regulations affecting private trade activities for services will expire at the end of the term stated on the license, but no later than 31 August 1980.

4991
CSO: 2300

GERMAN DEMOCRATIC REPUBLIC

MITTAG INTERVIEWED ON TRADE RELATIONS WITH ALGERIA

East Berlin HORIZONT in German Vol 13 No 15, 1980 signed to press
7 Apr 80 pp 3, 6

[Interview with Guenter Mittag, SED Politburo member and Central Committee secretary for economic affairs: "GDR-Algeria: Relations of Friendship and Cooperation Are Being Intensified"]

[Text] [Question] At the end of March, you visited the Democratic People's Republic of Algeria at the head of a party and government delegation. As is well known, far-reaching agreements had been concluded between the two countries on the occasion of your visit in October 1977. What was the objective of this year's visit?

[Answer] This year's visit of our party and government delegation to the Democratic People's Republic of Algeria took place at the invitation of the FLN [National Liberation Front] Politburo. As you know, the GDR attributes great importance to the friendly and cooperative relations with Algeria. This is reflected in the message--which I had the privilege to transmit in Algeria--by the secretary general of the SED Central Committee and chairman of the GDR State Council, comrade Erich Honecker, to the secretary general of the FLN and president of the DPRA, Chadli Bendjedid. In this message, comrade Erich Honecker stated that "in the last few years the fraternal relations between our two peoples, parties and states have been greatly consolidated. This demonstrated anew the fruitfulness and great mutual benefit of the relations between the GDR and the DPRA, which are characterized by anti-imperialist solidarity and international friendship."

In this connection, special mention should be made of the comradely and dynamic development of the cooperation in business, trade, science, technology and culture, which was started by the above-mentioned long-term agreements of 17 October 1977 concerning economic, commercial and technical cooperation.

The objective of this year's visit was to join our Algerian friends in reviewing this successful cooperation and to discuss with them the ways and long-range objectives of its further development. It goes without saying that the exchange of views on acute international problems figured large in the discussions with leading Algerian representatives.

[Question] What is your assessment of the results of the visit?

[Answer] In a word: Our high expectations in regard to the visit to Algeria were fully met. We found that Algeria's party and government leaders value as highly as do we the successful dynamic development of the comradely cooperation between the SED and the FLN and between our two states.

Our common experience of the last 3 years has confirmed the validity of the policy pursued in regard to the overall development of the friendly and cooperative relations between our countries. The dynamic development of the economic relations, which was outlined in the agreement of October 1977, and its organic integration in the general framework of political, cultural and other ties between the two countries have given fresh impetus to the complex of bilateral relations, which have assumed new dimensions as it were.

This is reflected above all in the sharp increase in the volume of trade between our countries. Within a period of only 2 years--i.e. from 1977 to 1979--the foreign trade turnover increased from 40 million to 100 million U.S. dollars. This testifies to the great efforts that our two countries put forth in order to intensify the cooperation and to improve its quality. An achievement such as the 2.5-fold increase in foreign trade turnover is truly impressive.

After the successful start-up of the Berrouaghia Armature Combine--which was established through joint efforts and which has become a symbol of the productive industrial cooperation between the GDR and the DPRA--and of the small-gauge rod mill in the Al Haydar Metallurgical Complex, other projects are now being started or under construction; among the most important of these projects are a pump plant in Berrouaghia, a steel and iron foundry in Tiaret and a cable plant in Biskra. Likewise of great importance is our cooperation in the field of vocational training, which represents a focal point at Algeria's present developmental stage.

In the negotiations with the Algerian partners, we agreed to create the conditions necessary for continuing our cooperation. In this sense, the documents we signed in Algiers--including a basic "Agreement on Economic Cooperation"--represent an important step toward the future. Long-term agreements are to promote the construction of cement plants, machine tools and agricultural machinery, the industrialization of agriculture and the construction of housing; at the same time, the forms and methods of long-range industrial cooperation will gradually be developed.

We also agreed to cooperate on other large-scale projects such as the establishment of a small-gauge rod mill in Moulay Slissen, a cement plant in [illegible] and a steel and iron foundry in Ain Smara. These are projects that go far beyond the framework of the two countries' next five-year plans. They are characterized by the transition from the joint implementation of individual projects to a long-term and complex economic cooperation in key sectors of the Algerian economy.

The results produced in the course of the visit are apt to initiate a qualitatively new stage in the dynamic development of the relations between the two countries, a stage characterized by further marked extension of the economic cooperation. In view of the high level attained, we can justly say that a solid foundation has been laid for the continued growth of our friendship and cooperation with Algeria.

Question: You already mentioned your exchange of views with leading representatives of Algeria on problems concerning international politics. Could you say anything more specific in this respect?

Answer: First of all, I would like to emphasize the great cordiality and and openness that characterized all of the personal meetings with the Algerian friends. The exchange of views and the negotiations were very constructive and comradely.

The talks with Prime Minister Abdelghani, the FLN Politburo members (Boulem) Benhamouda and Kasdi Merbah and the other interlocutors were characterized by the conformity of our views on important international problems. This goes for the preservation and consolidation of peace, the continuation of detente, the termination of the arms race as well as for the peaceful solution of conflicts that seriously threaten the stability and security of certain regions.

I was also greatly impressed by the fact that our Algerian friends are committed to supporting the just cause of the peoples fighting for their national and social liberation against imperialism, colonialism, neocolonialism and racism. The revolutionary elan, with which the Algerian people once shook off their colonialist yoke in a bloody, armed struggle, is undiminished in present-day Algeria.

In our meetings with the Algerian party and government leaders, we gave a detailed account of the successful policy pursued by the SED, of the implementation of the resolutions of the Ninth SED Congress and of the preparations for the 10th Congress. At the same time, we were informed about the revolutionary activities of the FLN, which is preparing for the Fifth Party Congress that will be concerned with the further economic, social and cultural development and will formulate the five-year plan.

Question: During your present visit, you surely had an opportunity to compare the present Algeria with that of 1977. What is your opinion of the DPRA's social development in the last 2 and 1/2 years?

[Answer] First of all, I would like to tell you that I am greatly impressed with the many changes that have taken place in the Democratic People's Republic of Algeria since my last visit. These changes have been of crucial importance in that they have helped to consolidate the political and economic results of the progressive developmental policy pursued and to mobilize the workers for the further implementation of this policy. The Fourth FLN Congress, which took place at the beginning of last year, and the subsequent plenary sessions of the FLN Central Committee adopted directive resolutions in this respect. The last 2 and 1/2 years have been characterized by extremely rapid industrial development, advances in the implementation of the agrarian revolution and significant achievements in the fields of education and social welfare. In spite of the fact that our stay was relatively short, we were able to acquaint ourselves with the magnificent achievements which the Algerian workers--led by the FLN and its secretary general, Chadli Bendjedid--have attained in overcoming the burdensome heritage of colonialism and in building a modern, flourishing Algeria: We saw ultra-modern industrial complexes that testify to the great efforts made in the development and expansion of an efficient industry. The complexes are part of the public sector, which has been consolidated in the last few years and which presently comprises over 70 percent of the manufacturing enterprises that produce more than 90 percent of the total industrial output. Our Algerian friends attribute great importance to further mechanization and to the application of industrial methods in agriculture. In this way, Algeria is gradually to become self-sufficient in regard to its food supply.

Finally, I would like to mention the housing construction program, which is an important element of the DPRA's social policy; in the implementation of this program, excellent results have been produced in the last 2 and 1/2 years. Similar changes are taking place in other social sectors. These changes help to create in Algeria further basic conditions necessary for overcoming the colonialist heritage and for effecting social progress.

[Question] During your visit, you saw the industrial complex near Annaba. Could you tell us your basic impressions?

[Answer] Yes, we had the opportunity to see the Al Haydar Metallurgical Complex near Annaba. This is an important new industrial center of the country; it comprises a coking plant, a steel mill, rolling mills, a tube mill and also a technical university at which as many as 5,000 students are being trained. At present, this industrial center produces 400,000 tons of metallurgical products per year and eventually total output will reach 2 million tons.

This complex includes a small-gauge rod mill, which was imported from the GDR and set up with the aid of specialists of our country. Our Algerian partners told us that the plant operates flawlessly and in accordance with the parameters planned. In short, they are satisfied with our work. We are gratified to hear this, for this project represents the continuation of a long-standing practice involving joint construction of industrial enterprises in Algeria in accordance with the principle of "turn-key delivery." This is a form of cooperation which is beneficial to both partners and which offers favorable long-term prospects.

In this respect, we proceed from the assumption that the structures of our national economies are mutually complementary and that they offer numerous opportunities for jointly and constructively tackling a number of projects. Naturally, the economic cooperation is only one of the constituent elements--albeit an important one--of our collaboration, which is harmoniously complemented by the relations in other fields.

[Question] Would you care to elaborate on this with a view to present Algerian attitudes toward the socialist German state?

[Answer] In the course of our visit, we satisfied ourselves that the esteem which the GDR enjoys in the Democratic People's Republic of Algeria has been growing continuously and that the GDR is known and respected everywhere. This is a result of the peace policy that we have been pursuing together with the USSR and the other socialist states and of our economic power and reliable partnership. Thus the cooperation among the many experts of both countries has contributed to improved mutual understanding. The positive results obtained have encouraged us and our Algerian friends further to extend this cooperation.

Moreover, the Algerians have not forgotten that the GDR supported the Algerian people in their anticolonialist liberation struggle and that the GDR presently continues this policy of solidarity vis-a-vis the African and Arab peoples in their just struggle for a better tomorrow. Naturally, the fact that there are many Algerian students and workers in the GDR contributes to the intensification of the manifold contacts between our nations.

We were gratified to see that the GDR citizens working at the construction sites in the interior of the country, in the FDJ [Free German Youth] friendship brigades, in the field of public health and in numerous educational institutions of the DPRA help to enhance the respect which the GDR enjoys in Algeria. On account of the successful establishment of the plants in Berrouaghia and El Hadjar, GDR industry is held in great esteem in Algeria.

Our visit on the eve of the adoption of the Algerian five-year plan was appreciated as being significant for the long-term cooperation. The leading party and government representatives unequivocally voiced the intention considerably to extend the relations with the GDR in the 1980's.

In conclusion, there can be no doubt that we have created all the conditions necessary for the long-term extension and intensification of the friendly, productive and mutually beneficial relations between the GDR and the Democratic People's Republic of Algeria.

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DECREE ON BALANCING MATERIALS, EQUIPMENT, CONSUMER GOODS PUBLISHED

Decree, Planning Order Summarized

East Berlin NEUE JUSTIZ in German Vol 34 No 5, May 80 pp 219-220

[Summaries of new laws under the heading "New Legal Regulations--Review of Legislation in the First Quarter of 1980"]

[Text] Since early 1980 economic development in industry and construction has been proceeding almost exclusively on the basis of combines. This has initiated a qualitatively new stage of our socialist planned economy. In accordance with the greater demands on central state management and planning new basic legal regulations were issued regarding economic planning and balancing.

The Order on the System of Planning in the Economy of the GDR 1981-1985--Planning Order--of 28 November 1979 (GBl [Gesetzblatt der Deutschen Demokratischen Republik], Special Issue No 1020 a-q) applies to the preparation of the Five-Year Plan for the development of the national economy 1981-1985 and the annual economic plans, annual state budget plans and balances of the credit system. It includes regulations for the preparation of the pertinent plan drafts by central state organs, local councils, combines, economy managing organs, enterprises, facilities and cooperatives.

The planning order consists of sections A through Q which--based on general principles--include planning instructions for the various economic sectors (including the social and cultural sectors) and across the board economic tasks. State enterprises and combines planning to a reduced extent must apply the methodological provisions specially issued for them. This applies to all state enterprises and combines of bezirk managed industry, kreis managed construction, local trade and other small enterprises.

Section A includes fundamental provisions on the planning of the GDR economy and on plan coordination with the USSR and other CEMA member countries. The subject matter of the plans is outlined and the planning procedure determined; the necessary rights and duties of those involved in the planning process as well as the participation of the working people and their social organizations are stated. Coordination duties, plan coordinations and plan discussions, provisions on plan defenses and the conclusion of business contracts serve the preparation of coordinated and balanced plans on the basis of state plan quotas and other state plan decisions. The regulations are designed to improve the stability of the five-year plan and the annual plans. Central state planning will concentrate more on basic issues of the national economy, those processes deciding the development of the economy; increased at the same time is combine responsibility for the management and planning of their reproduction process. Proven principles of the planning order for 1976-1980 of 20 November 1974 (GBl Special Issue No 775 a-c), which will lose effect on 31 December 1980, were retained.

The Decree on Materials, Equipment and Consumer Goods Balancing--Balancing Decree--of 14 November 1979 (GBl I 1980 No 1 p 1) includes--coordinated with the new planning order--the necessary rights and duties of the central and local state organs, combines, economy managing organs, state and similar enterprises, facilities and socialist cooperatives involved in the balancing process.

For the purpose of the preparation and implementation of the five-year plan and annual plans balancing is designed at all management levels to achieve agreement between the economically justified demand and the supply of energy, raw materials and other materials, components, rationalization aids, replacement parts, equipment, industrial plant and consumer goods. Priority classification in plans and balances is required for certain tasks (such as the tasks of the state plan science and technology).

Balancing proceeds as a total economic task on the basis of democratic centralism and responsibility on the basis of the division of labor. By confirming the state plan balances the Council of Ministers decides the basic proportions of the economy, which will determine growth and efficiency. Moreover balance-responsible ministers, general directors of combines and VVB's [associations of state enterprises] and directors of enterprises assigned balance responsibility as a state function are personally responsible for the observance of the tasks, rights and duties involved. Delegation of this responsibility is explicity prohibited (article 2 paragraph 2). Managers are obligated themselves to take balance decisions, because these are decisions concerning the plan and its fulfillment by the criteria of the national economy as well as the basis of the conclusion, amendment or cancellation of business contracts.

To exploit all reserves for meeting the economically justified demand it has been decided that consumers must return balance parts not required for the material-technical security of state plan quotas if, for example, sufficient stocks are still available. Unless specific instructions are issued, they must be returned by 31 March of the respective plan year. The business contracts involved must be canceled or amended. Applicable here is the directive by the Council of Ministers to the effect that contract penalties, price sanctions and damage payments will not be imposed with regard to reductions in demand, provided supplier enterprises are notified to that effect by 31 March of the respective plan year.

The balancing decree is designed to secure the unity of plan, balance and contract. In particular the provisions on business contracts (article 16) orient to timely conclusion especially in the process of plan preparation. Long-term business contracts are to be concluded generally as performance contracts on the basis of the state plan quotas of the five-year plan. Long-term business contracts should be concluded mainly to carry out priority tasks to be incorporated in the balances. Furthermore they serve to organize permanent relations, especially between final producers and component suppliers, if such relations are planned to last for several years. Long-term business contracts concluded on the basis of the five-year plan are to be incorporated in annual plans and balances unless this is counterindicated by decisions of the Council of Ministers or central state organs.

The new balancing decree extends the scope of financial sanctions (article 33). Certain dereliction of duty by balancing or balance-assigned organs may result in the payment of a financial sanction ranging from M1,000-M50,000, and in the case of serious dereliction up to M500,000--if these organs work in accordance with economic accounting. The definition of dereliction of duty includes, among others, preferential treatment granted by way of a balance decision to subordinated enterprises to the detriment of non-subordinated enterprises.

Financial sanctions are collected by the balance-responsible central state organ on behalf of the state budget. A financial compensation for the economic disadvantage arising for a combine or enterprise disadvantaged by a balance decision may be paid from the reserve fund of the balance-responsible industrial ministry (article 35 paragraph 1). Retained (see article 34) was the financial sanction following an unjustified claim of need, provided for in the now obsolete balancing decree of 20 May 1971 (GBl II No 50 p 477). The provisions on administrative penalties were supplemented by the inclusion of two more offenses (use of balanced material funds for unplanned projects and deliveries or services rendered contrary to state plan quotas or without business contracts--in contravention of legal regulations).

Text of Balancing Decree

East Berlin GESETZBLATT DER DEUTSCHEN DEMOKRATISCHEN REPUBLIK in German Part I No 1, 2 Jan 80 pp 1-15

[Official text of 15 November 1979 "Decree on Balancing of Materials, Equipment and Consumer Goods--Balancing Decree" signed by the Council of Ministers of the GDR: W. Stoph, chairman, Klopfer, state secretary, member, Council of Ministers, and [by proxy] chairman, State Planning Commission]

[Text] The following is decreed for the further perfection of materials, equipment and consumer goods balancing:

Section I

Scope

Article 1

(1) This decree applies to central and local state organs, combines, economy managing organs, state and similar enterprises, facilities and socialist cooperatives. It is to be used for balancing energy, raw materials and other materials, components, rationalization aids, replacement parts, equipment, industrial plant and consumer goods (materials, equipment and consumer goods balancing) for the preparation, drafting and implementation of the five-year plan and annual plans.

(2) Unless other instructions are issued in special legal regulations the provisions of this decree apply to the fulfillment of all tasks for the economic assurance of national defense and internal security and order.

Section II

Principles of Balancing

Subject Matter and Targets of Materials, Equipment and Consumer Goods Balancing, Observation of Balance Responsibility

Article 2

(1) Materials, equipment and consumer goods balancing must be used and constantly refined because it is the most important management and planning tool for organizing the necessary product-definite material-technical proportions and interrelations for the appropriate supply of the public, the economy, the state and exports. Materials, equipment and consumer goods balancing must be carried out as a general economic task by the State Planning Commission, ministries, combines, economy managing organs and selected enterprises on the principle of the division of labor and democratic centralism by way of responsibility graded according to management level (balance pyramid). In this connection economically vital tasks and interlinks must be centrally planned and balanced.

(2) The chairman of the State Planning Commission, the ministers, general directors of combines and heads of economy managing organs are personally responsible for the tasks, duties and rights determined by this decree for the process of materials, equipment and consumer goods balancing. Delegation of this responsibility is not permitted.

(3) Balancing organs must orient materials, equipment and consumer goods balancing so as to produce--in the preparation, drafting and implementation of the five-year plan and annual plans--agreement at all management levels between the economically justified demand and the output of energy, raw

materials and other materials, components, rationalization aids, replacement parts, equipment, industrial plant and consumer goods (products). In this connection the balancing organs must ensure the planned yield of production and imports consonant with the economically justified needs with respect to volume, range, quality and timeliness, as well as the efficient use of this yield for the public, the economy, the state and exports on the basis of progressive standards, normatives and other standard values as well as computations. The balancing of primary and secondary raw materials must proceed on equal terms.

(4) The product-specific balancing of export and import tasks must be coordinated. When balancing necessary imports, their efficient use and the pursuit of all possibilities for meeting the demand from domestic output must be ensured. The provisions applicable for the planning and balancing of imports must be consistently used for materials, equipment and consumer goods balancing.

Article 3

(1) The Council of Ministers confirms the state plan balances and thereby decides the growth and efficiency determining product-specific basic proportions of the national economy including production targets, as well as the decisive funds for production and the public as well as exports and imports. Balances for economically vital energy, raw materials and other materials, components, rationalization aids, replacement parts, equipment, industrial plant and consumer goods for domestic use and exports profitable in terms of foreign exchange must be drafted on the responsibility of the chairman of the State Planning Commission to yield state plan balances. On behalf of the Council of Ministers the State Planning Commission must balance state plan balances in their economic interrelations and coordinate them with the general economic development in the process of the preparation and implementation of the five-year plan and annual plans. Within this scope and in cooperation with the appropriate ministries it must prepare for the Council of Ministers or, on its behalf, make overall strategic and operational economic decisions for the implementation of material-technical tasks and the production of product-specific basic proportions. By integrating the funds necessary for the material security of production development in the plan the ministers must guarantee the necessary prerequisites for the realization of the product-specific proportions balanced in the state plan positions.

(2) By way of ministerial balances the ministers are responsible for centrally balancing other economically important product-specific proportions, especially for interindustrial material-technical proportions and interrelations for the support of the state plan balances, selected balances for consumer goods, important export and import goods as well as economically important comprehensive balances of raw materials and other materials, for which substitutes may be used. Starting with total economic needs, product-related interindustrial coordination is to be carried out by way of these ministerial balances. Unless ministers are not authorized on their own responsibility to take the respective decisions they must submit proposals

concerning decisions for ensuring economic proportions. The chairman of the State Planning Commission confirms the ministerial balances and produces the necessary decisions.

(3) As a consequence of their function with regard to the preparation and enforcement of state plan and ministerial balances, combines and economy managing organs must carry out the assigned tasks, duties and rights of balance-assigned organs for securing standardized production and supply responsibility under the personal control of the general directors of combines and heads of economy managing organs.

(4) Starting from the product-specific basic proportions of the economy decided by the state plan and ministerial balances, general directors of combines and heads of the economy managing organs are responsible for drafting combine balances as important bases of the organization of efficient cooperation relations. These must be based on the state plan targets, state plan and ministerial balances as well as the directives on materials, equipment and consumer goods balancing. In their scope general directors are personally responsible for the management, planning, balancing and implementation of material-technical tasks for securing an appropriate production and supply; they must actively affect the genuine determination of needs and adopt the necessary decisions. In accordance with economic needs all opportunities for the appropriate and efficient development of the combine's own performance must be developed and either decided by way of the plan draft or submitted to the ministers for decision. Combine balances must be prepared so as to support state plan and ministerial balances by assortments and to guarantee material-technical proportions and the internal links for the reproduction process of the combines, the supply of replacement parts and the products which are largely if not exclusively manufactured by the combines within the scope of the ministry, or for which long-term stable cooperation relations are in being. Combine balances for selected basic products for the public and the "1,000 small items of daily demand" which are centrally controlled must be drafted on the responsibility of the general directors of combines and heads of economy managing organs and confirmed by the general directors of combines or heads of economy managing organs in coordination with the central economy managing organs of the domestic consumer goods trade competent for supplying the public.

(5) Enterprise directors are responsible for preparing enterprise balances to support the combine balances or for further product headings of the product and services nomenclature.

(6) Ministers must confirm combine balances which involve, in particular, decisions for the supply of raw materials and other materials as well as components, the planned smooth-flowing supply of the public and export/import tasks; also combine balances which substantially affect the economic efficiency of important industries. The general directors of combines or heads of economy managing organs must confirm other combine balances and enterprise balances.

(7) In the course of the preparation, drafting and implementation of the five-year plan and the annual plans central state organs, combines, economy managing organs, enterprises and facilities must coordinate their plan quotas in regard to economic material-technical interrelations, especially between the production of finished products and components. They must also ensure the preparation of balances and need plans coordinated with other plan sections. Here economic-mathematical methods--especially interlocking balances for industries and sectors--and electronic data processing should be used in order to improve efficiency and further rationalize need planning, materials, equipment and consumer goods balancing as well as lower planning costs. In coordination with the other competent central state organs the State Planning Commission must issue the necessary directives on the rational organization of relations between the organs involved in the balancing process.

Article 4

(1) The State Planning Commission, ministries, combines, economy managing organs and enterprises must carry out their tasks as balancing or balance-assigned and balance-confirming organs as a state function in the interest of the national economy. Responsibility for materials, equipment and consumer goods balances includes the preparation, drafting, coordination, confirmation, implementation and supervision of balances including the conduct of need reviews and need defenses and the settlement of balance problems as well as the control of material funds in accordance with economic requirements (balance responsibility).

(2) The balancing and balance-confirming organs must discharge their balance responsibility in close cooperation with those involved in output, circulation and use. When handling the tasks, duties and rights assigned them, those involved in the yield, circulation and use must closely cooperate with the balancing and balance-confirming organs.

(3) Ministers, general directors of combines and heads of economy managing organs are obligated fully to break down to combines and enterprises the plan targets included in materials, equipment and consumer goods balances in accordance with plan methodological instructions.

(4) In cooperation with the balancing and balance-assigned organs the general directors of combines and heads of economy managing organs must ensure a steady flow of documentation regarding NSW [nonsocialist monetary area] imports used in their products. When making funds available the general directors of combines and heads of economy managing organs as balancing or balance-assigned organs must inform consumers about the proportion of NSW imports. The ministers are responsible for documenting the status and development of the use of NSW imports in their sectors.

Article 5

(1) The following further instructions concern materials, equipment and consumer goods balancing at various management levels:

1. Following coordination with the competent ministers the chairman of the State Planning Commission decides the responsibility and nomenclature for the balancing of state plan and ministerial headings. The Minister for Materials Management decides combine and enterprise balances at the suggestion of the heads of the central state organs involved or on the basis of economic necessities. He does so on his own responsibility with the balance nomenclatures, settling balance responsibility and the assignment of product groups to balance-responsible ministries.

2. The following criteria are to be used to establish the responsibility for balance headings:

   a) In accordance with the basic principle of unified responsibility for production and appropriate supply the rule should be to appoint as the balancing organ the organ superior to the main producer or the main producer.

   b) In those instances where product groups and services are exclusively or almost exclusively intended for a single consumer, these consumers or their superior organs (fund suppliers or supply centers) may be appointed balancing organs. That applies in particular to products which are largely derived from imports.

   c) The central state organ disposing of the major proportion of the present yield must draft the comprehensive balance for products which lend themselves to substitution or are tightly bound within the flow of materials or the chain of cooperation, and for which various balancing organs are responsible. The extent of the comprehensive balance and the responsibility for all individual balances included therein must be stipulated in the balance register. As concerns primary and secondary raw materials which lend themselves to substitution, balance responsibility should be assigned the balancing organ competent for the primary raw materials. This does not lessen the responsibility of the originator of secondary raw materials and waste products for their use or harmless removal.

   d) The confirmation of materials, equipment and consumer goods balances proceeds in consideration of the provisions of article 3 paragraph 4, that is normally by the heads of the organs superior to the balancing organs. When consumers are appointed balancing organs, balances are confirmed by the competent heads of the superior organs of the consumers.

e) Before confirmation balances for selected headings of the secondary raw material industry require the approval of the Minister for Materials Management. Before confirmation balances for selected packaging materials must be coordinated with the Minister for Materials Management.

(1) Regarding state plan and ministerial balances the chairman of the State Planning Commission and the competent ministers assign the preparation of balances and the drafting of proposals for balance decisions as well as the balance implementation and reporting to the general directors of combines and heads of economy managing organs. On the basis of the central state responsibility held by the State Planning Commission and the balance-responsible ministries for state plan and ministerial balances, the combines and economy managing organs act as balance-assigned organs. The tasks of the balance-assigned organs are recorded in article 24, and details must be settled by the balance-responsible ministers.

(2) Responsibilities for materials, equipment and consumer goods balances are recorded in detail in the balance register. The Minister for Materials Management together with the chairman of the State Planning Commission and the head of the Central State Administration for Statistics issues the balance register in the form of an order.

Article 6

Materials, Equipment and Consumer Goods Balances of the Five-Year Plan and the Annual Plans

(1) In accordance with the decisions taken by the Socialist Unity Party of Germany and the Council of Ministers, five-year plan balances--subdivided by years--must be prepared for the economic computation of estimated plan appropriations and as an element of state quotas and state plan targets for economically vital material-technical proportions and interrelations. To be included are the obligations arising from international treaties and international trade agreements, especially within the scope of socialist economic integration. Five-year plan balancing must proceed at the central level for products economically important to the development of appropriate production and efficient use. To be ensured, in particular, is the planned proportional development between components and finished products. The chairman of the State Planning Commission, on behalf of the Council of Ministers, determines the nomenclature of five-year plan balances.

(2) On the basis of the preset balances issued together with the state targets of the five-year plan, the balance-responsible ministers in agreement with the State Planning Commission decide the other selected products for which five-year plan balances are to be drafted as computation balances by combines and economy managing organs. To be appraised in this context are:

a) Results of long-range planning and the conceptual preparation of the five-year plan, especially for the development of scientific-technical progress and socialist rationalization,

b) The results of market research concerning the domestic and export markets (including long-term assortment conceptions for consumer goods),

c) Analyses of the course of plan implementation.

These balances are to be prepared in particular for products designed to secure cooperation relations of combines and economy managing organs, and which are to be planned for a considerable time ahead.

(3) Based on the five-year plan balances, the results of the conceptual annual plan preparation and the prior balancing of economic key tasks, the analysis of plan implementation and the preset balances assigned together with state targets, materials, equipment and consumer goods balances of the annual economic plans are to be drafted as vital tools of annual planning. These balances are to guarantee the planned yield required to meet the economically justified demand as well as the economical use of the products in the necessary structure. Economic requirements for meeting the demand for key tasks are to be issued in balance directives for the preparation, drafting and implementation of selected materials, equipment and consumer goods balances of the five-year plan and the annual plans.

Article 7

Economically Justified Demand

(1) Economically justified demand is the documented and generally agreed dimension of the demand for products required to carry out state tasks and state plan quotas. It is ascertained on the basis of state plan targets, state normatives and indices of energy and materials management, by progressive energy and materials consumption standards as well as standards for stocks and other standard values relating to consumption, by computations and need documentation. Demand planning is to be carried out on the basis of the division of labor between and on the responsibility of the consumers, producers and organs of the domestic consumer goods and production aid trade as well as their superior organs, in order to safeguard supplies, reduce the consumption of production and improve the economic end product. Economically justified demand represents the basis for the development of production, the planning of imports and the economical use of the available funds.

(2) Balancing and balance-assigned organs must base balancing and the preparation of decisions on the organization of the economically effective output and its use on information received about supply, consumer and trade demand, on orders in hand, business contracts and coordination protocols as well as their own computations and ascertainments of the development of demand and output. They must review demand requirements including documentation and

justification as relating to key points, and they must conduct demand defenses. To be used as the main types of demand planning are demand planning from the supply, consumer and trade aspect for the preparation of balances, and enterprise production, supply and sales planning must be linked with economic materials, equipment and consumer goods balancing.

(3) Consumers (those exerting a demand) and their superior organs (fund holders and supply sectors) are responsible for planning the demand for products so as to ensure economical materials use and observe the principle of socialist thrift. They must document and justify their demands to their superior organs and the balancing or balance-assigned organs on the basis of normatives, standards and indices of energy and materials consumption as well as stockkeeping in the assigned dimension. Fund holders and those exerting a demand are obligated to furnish information and make documents available to the balancing or balance-assigned organs at the time of demand reviews and demand defenses.

(4) The planning of material demand includes basic and ancillary materials as well as the volume of stocks needed to carry out the planned production, services, research and development, investment and supply tasks justified by progressive normatives, standards and indices.

(5) The ascertainment of demand for equipment and industrial plant, especially for carrying out socialist rationalization, must proceed on the basis of confirmed targets and basic decisions on investments and of investment indices. When planning the demand for equipment and industrial plant the efficient use and utilization of existing similar capacities must be demonstrated at the time the preparatory documentation for investments is submitted. When claiming deliveries for investments it must be shown that the investments are part and parcel of the state plan indices of the investment customer. If no plan targets are available for the years of implementation of the investment project following the plan period, the superior organs must confirm the incorporation of the projects in the plan target. For investments carried out by a general contractor (GAN) or main contractor (HANO, the GAN or HAN must carry out the planning of the demand for equipment and plant via their appropriate fund holders and supply sectors.

(6) Starting with purposeful market research and confirmed assortment conceptions, the balancing of consumer goods must be based on demand relative to quantity, quality, assortment and price groups. Social entities having a need must document their demand for consumer goods on the basis of equipment and consumption standards.

(7) In the course of balancing, the documented dimensions of demand must emerge as relating to the economically justified demand. The integration of demand in the materials, equipment and consumer goods balances is permissible only when accompanied by documentation and justification in accordance with the provisions issued for that purpose. Any planning of demands on imports must proceed in accordance with the appropriate provisions. The balancing

or balance-assigned organs must reject unjustified demand requirements. The demand of the supply sectors 7710 and 7770 as well as any demand ranking equal to these supply sectors as a result of central provisions must be incorporated as priorities in the materials, equipment and consumer goods balances; in this instance documentation and justification of demand are waived.

(8) Consonant with the objective requirements of the planned proportional development of the economy and taking into account the results of the coordination of economic plans with the USSR and the other CEMA member countries as well as the treaties and agreements concluded with these countries, the fixing of the economically justified demand (whether for domestic use or exports) must proceed gradually in the course of the preparation, drafting and implementation of the five-year plan and the annual plans. In particular the balancing organs must see to it in the course of plan preparation that plans, proportions and interrelations already coordinated at the time of estimated plan appropriations are duly safeguarded.

(9) In the course of the preparation and drafting of the five-year plan and the annual plans economically justified demand is determined in particular by central resolutions and provisions on long-range planning, preset balances and balance targets, and precisely defined by business contracts concluded. The drafting of the annual plans is to be based on the decisions made at the time of the five-year plan. In this instance the balancing or balance-assigned organs must record for the subsequent plan periods the demand for products already justified by decisions issued earlier on material funds and take it into account in the course of their balancing operations.

(10) In the course of the implementation of annual plans the economically justified demand is determined by state plan targets including confirmed balances and the balance decisions required in the course of plan implementation; it is more precisely defined by coordinated delivery or service contracts.

(11) Depending on the actual production and circulation conditions prevailing in the various product groups and on the factors influencing demand (economic use categories, type of circulation, planning timeframe) it is necessary to settle the most suitable methods and instruments of collaboration by those involved in the balancing procedure as regards demand planning, the independent ascertainment and computation of demand, demand defenses and coordinations as well as the preparation of balancing decisions by the balancing organs. Direct cooperation is to be encouraged between consumers, producers and the enterprises of the trade in means of production as well as their superior organs, especially on the basis of plan and balance decisions, business contracts, coordinations and the planning of deliveries. In order to lower planning costs supracombine demand information from the consumer aspect is to concentrate on crucial products and consumers. The necessary methodological regulations are to be issued together with the planning order and the balance register.

Article 8

Material Backing for the Tasks of Science and Technology, Plant Exports and Socialist Rationalization

(1) To achieve the planned implementation of the tasks of the state plan science and technology the heads of balancing organs must ensure that deliveries and services to meet research requirements and for the most rapid possible transfer of research and development results to production receive priority upon incorporation in the plans and materials, equipment and consumer goods balances. The heads of balancing or balance-assigned organs are obligated quickly to take or initiate the necessary balance decisions.

(2) The heads of balancing organs must ensure that component deliveries and services for the export of plan enjoy priority incorporation in the materials, equipment and consumer goods balances, consonant with the legal regulations on the drafting of the five-year plan and the annual plans. To do so general suppliers must plan the justified demand for components for the entire period of the execution of the plant export project at the balancing and balance-assigned organs and their superior organs, consonant with the legal regulations governing the export of plant.* On this basis and starting from the coordinations to be effected here, the balancing and balance-assigned organs must proceed with the priority incorporation in the balances of the five-year plan or the respective annual plan. For the years beyond the plan period the economically justified demand is to be incorporated as a mandatory balancing basis in the advance planning resulting from prior long-range economic decisions. Furthermore, materials, equipment and consumer goods balancing should affect the rise in the output of marketable and profitable (in terms of foreign exchange) products as well as the material-technical safety of the output of combines and enterprises crucial to exports.

(3) Within the framework of the planned funds consumers and their superior organs as well as balancing and balance-assigned organs are to give priority to securing the tasks of the state plan socialist rationalization.

Article 9

Balancing of Economically Crucial Projects and Tasks

To secure material-technical proportions in the necessary consumption structure, the technically and economically justified use of the funds must be balanced by ministries (supply sectors) and combines and economy managing organs (fund holders). Demand and fund balancing for selected products must be carried out by the State Planning Commission, ministries and other central organs as well as combines and enterprises, in order materially to secure crucial projects or tasks. Such balancing must be carried out for:

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* In effect at this time is the order of 13 July 1978 on securing component deliveries and services for the export of plant (GBl I No 20 p 241)

a) Selected components and equipment for centrally planned investment projects (including the projects of the state plan science and technology, the state plan socialist rationalization and compensation projects) and plant export projects,

b) important materials and equipment for crucial projects of socialist economic integration,

c) Typical materials and equipment which are vital for the implementation of the sociopolitical program (such as complex housing construction, health care) and specific sectors (such as education, the Academy of Sciences).

Section III.

The Decision Making Process

Article 10

(1) The heads of balancing or balance-assigned organs are obligated to ensure the appropriate yield from production and imports as well as the efficient use of the products to be balanced. In consideration of the need for material economy and the use of secondary raw materials they must steadily work on the resolution of balancing problems to meet the economically justified need.

(2) Especially in regard to the five-year plan and earlier plan and balance decisions, international treaties and international economic agreements, decisions on crucial projects and tasks as well as declarations of irrevocability, balancing and balance-assigned organs must draft advance balances for the year following the plan year and, upon demand, send them to the superior organs or the State Planning Commission for information and the preparation of preset balances. The drafting of advance balances must proceed on the basis of close cooperation with producers, consumers and the trade in means of production. For selected components, equipment and industrial plant the balancing and balance-assigned organs must constantly ascertain the demand and the supply allocated to meet this demand, especially for projects of socialist economic integration and centrally planned investment and plant export projects. They must do so for the entire period of implementation of these projects--even if this extends beyond the five-year plan period--beginning with the stage of preparation. Once ascertained, this demand must be incorporated in the advance balances and balances.

(3) For the drafting of state plan and ministerial balances the State Planning Commission and the ministries must prepare preset balances. The preset balances for state plan headings must be prepared in close cooperation between the State Planning Commission, the ministries and the balance-assigned organs. For the drafting of selected combine balances and in accordance with economic requirements the balance-confirming central state

organs assign the balancing organs balance targets with respect to vital issues of output and use.

(4) In the course of drafting the balances and in accordance with the applicable legal regulations the balancing and balance-assigned organs must carry out balance coordinations. Eventually they must submit the coordinated balances--inclusive of analytical justifications--to the balance-confirming or balancing organs.

(5) To secure the economically justified demand those involved in the process of materials, equipment and consumer goods balancing must proceed on the following principles:

a) Consumers and their superior organs are obligated to document the announced demand, taking into account the utilization of secondary raw materials, to justify this demand by progressive standards and indices and defend it to balancing or balance-assigned organs with respect to key points of consumption. Balancing and balance-assigned organs must review the demand on the basis of their own computations and market research related to key points.

b) If the balance coordinations reveal contradictions between the economically justified demand and output, the balancing and balance-assigned organs should initially review the possibility of raising domestic production and, in close cooperation with the producers and their superior organs, prepare the appropriate suggestions as well as initiate measures to improve materials management and the use of secondary raw materials. If a consumer is also the balancing organ, the said consumer must initiate measures to improve the management of internal consumption. At the same time internal use must not be increased at the expense of export tasks. Furthermore all possibilities must be investigated for raising the yield of producers not subordinated to the balancing organs, and the necessary decisions either taken or initiated.

c) To settle balancing problems likely to arise the balancing and balance-assigned organs are obligated, in cooperation with the foreign trade organs and producers as well as main consumers, to ascertain the possibilities for a more efficient export and import structure with respect to the necessary economic proportions.

Article 11

(1) To discharge their balance responsibilities the heads of balancing and balance-confirming organs are obligated to take decisions in the course of the preparation, drafting and implementation of the plans. The delegation of balance decisions is not admissible. Balance decisions are mandatory state prescriptions regarding the output and use of products for the headings to be balanced in order to meet the economically justified demand.

(2) To secure economic proportions and interrelations in the drafting of the five-year plan and annual plans the heads of balancing organs must take the necessary balance decisions--especially consequent upon balance coordinations--within the timespan assigned for carrying out these coordinations. The consequences arising from the decisions must be reported to the appropriate state organs or economy managing organs. The results of balance coordinations must be incorporated in the plans. Responsible for this in the sector of producers and consumers not subordinated to the balancing organs are the heads of the organs superior to these producers and consumers.

(3) Balance decisions should be prepared in coordination with the state organs, combines, economy managing organs, enterprises and facilities involved. Ministers must ensure that balance decisions are justified increasingly by interlocking computations. If balance decisions directly affect existing treaties, agreements and contracts regarding exports or imports, they require the prior approval of the Minister for Foreign Trade. If balance decisions directly affect the availability of centrally balanced consumer goods, they require the prior approval of the Minister for Trade and Supply. For balance decisions affecting the meeting of the demand of supply sectors 7710 and 7770 as well as of the demand equated with the former by central instructions, the special legal regulations applying thereto are to be used.

Article 12

(1) In connection with balance decisions the heads of balancing and balance-assigned organs are authorized and obligated to require the heads of the superior organs of producers and consumers to make the necessary decisions to secure appropriate output and its efficient use. The heads of the organs superior to producers and consumers are obligated to make these decisions promptly and certainly within 4 weeks. The balancing and balance-assigned organs are entitled to submit the appropriate decision-making suggestions.

(2) If, even after investigation of all possibilities, ministers and heads of other central state organs are unable to arrive at a decision on their own responsibility in the preparation and drafting of balances, they must submit these problems to the State Planning Commission, complete with suggestions for settlement. The chairman of the State Planning Commission in turn must submit suggestions for decisions to the Council of Ministers or, on behalf of the Council of Ministers, make the appropriate decisions. If so required to clear up important problems the chairman of the State Planning Commission may assign tasks for the preparation of decisions to ministers or heads of other central state organs.

Article 13

(1) State plan targets are to be fixed as state tasks or state plan quotas in order to achieve the production tasks included in the materials,

equipment and consumer goods balances and to secure the efficient use of the available funds. Also, in accordance with the legal regulations, product-specific state plan targets on production, exports and imports are to be used--classified by economic areas or consumer sectors--as well as funds for meeting the needs of the economy and the public.

(2) In coordination with the ministries and other central state organs the State Planning Commission must settle in the balance register the nomenclature of selected state plan and ministerial headings to be planned from the consumer aspect, for which--beginning with the state tasks--the state plan target "balance parts" is issued for main consumers. Balance parts for state plan headings are issued by the State Planning Commission on behalf of the Council of Ministers, balance parts for ministerial balances by the balance-responsible ministries. With the permission of the State Planning Commission other balance parts may be issued for selected combine and enterprise balances by the ministries and other appropriate central state organs. Generally these balance parts are handed over to the fund holders by way of the appropriate supply sectors. The state plan target "balance part" is to be used to enforce for the five-year plan and annual plans a consumption structure corresponding to the necessary economic proportions.

(3) Balancing and balance-assigned organs are not entitled to request balance data beyond the extent settled in legal regulations. If, in exceptional circumstances, such balance data are needed, the request is permissible only after prior joint approval by the balance-responsible ministers and heads of the supply sectors involved.

Article 14

(1) The heads of balancing and balance-assigned and balance-confirming organs are obligated to ensure the accomplishment of the tasks assigned in the confirmed materials, equipment and consumer goods balances while maintaining the unity of plan, balance and contract.

(2) To guarantee the supply and balance-effective use of all reserves of raw materials and substances as well as components--especially from stocks in plan implementation--balance parts not required for the material-technical assurance of state plan quotas must be returned by consumers to the balancing or balance-assigned organs via their superior organs. They must do so either in accordance with specific instructions by the Council of Ministers or by 31 March of the plan year. The economic contracts involved must be canceled or amended. Incidentally, consumers and their superior organs are obligated promptly and certainly within 14 days to inform the balancing or balance-assigned organ about the cessation or reduction of the notified demand; the balance parts must be returned to the balancing or balance-assigned organ via the fund holders; the supply sectors also must be informed about the return. By way of their superior organs producers must promptly notify the balancing or balance-assigned organs of any substantial changes in yield, and these changes must be justified. The balancing or

balance-assigned organ is obligated, after a review of the information received, to take or initiate the necessary measures to restore the agreement between yield and the economically justified demand.

(3) Combines, economy managing organs and enterprises as balancing organs are obligated to notify those involved in output or use if, by virtue of economic requirements in the course of plan implementation, substantial changes in sales and supply relations are required.

(4) If, in the course of plan fulfillment, changes occur in the conditions on which the balances are based, the heads of the organs involved are obligated to utilize all possibilities for the complete fulfillment of the targets and supply tasks listed in the balances, and to do so by developing their own reserves and the initiative of the working people. Changes in confirmed materials, equipment and consumer goods balances in the process of plan implementation require confirmation by the balance-confirming organ. They must be carried out or initiated promptly or certainly within 4 weeks, and must proceed on the basis of the instructions issued by the Council of Ministers and as per article 22 paragraph 5.

(5) As an important basis for the analysis and control of material-technical proportions in plan implementation the Central State Administration for Statistics organizes the reporting of product-specific indices of materials, equipment and consumer goods balances (production, exports, imports, balance parts of domestic consumption, development of stocks at the suppliers) as well as of consumption and stockpiling by consumers, suppliers, balancing and balance-assigned organs; the Central State Administration for Statistics issues the relevant regulations.

Article 15

(1) If, in the course of plan preparation, issued balance decisions which are either not coordinated at all or only incompletely so and affect combine and enterprise balances, the general directors of combines, heads of economy managing organs, enterprises and facilities are entitled to request the head of the balance-confirming organ to review the respective balance decision within 14 days of issue.

(2) After reviewing the problem the head of the balance-confirming organ must make his decision within 14 days. This decision is final.

Article 16

Business Contracts

(1) The general directors of combines, heads of enterprises and facilities, economy managing organs and balancing organs are responsible for securing the unity of plan, balance and contract. To organize rational cooperation relations they must ensure the timely and comprehensive conclusion of business contracts.

(2) Combines, enterprises and facilities are obligated in the course of the preparation and implementation of the five-year plan and annual plans to conclude business contracts which will secure the efficient preparation and conduct of deliveries or services. In particular they are obligated to conclude business contracts if any of the following are involved:

a) Central plan decisions on key points of the long-term development of the economy, which extend beyond the give-year plan period,

b) State plan targets of the five-year plan, state tasks regarding the preparation of plan drafts for annual plans or state plan quotas of the annual plans,

c) Balance decisions or results of balance coordinations.

(3) For the purpose of the long-term preparation and organization of the balancing of products and cooperation relations every economy managing, balancing, balance-assigned or balance-confirming organ is entitled to require the other organ to conclude a coordination contract on the basis of coordination results. The coordination contracts must settle the specific reciprocal duties and rights for the ascertainment, documentation and supply of the economically justified demand by volume, assortment, quality and date, including the organization of the information relations required to prepare and enforce balance decisions.

(4) Long-term business contracts should be concluded to realize the tasks of the state plan science and technology, measures of socialist economic integration, centrally planned investments, plant export and import projects, tasks and projects of the state plan socialist rationalization, and to safeguard the housing construction program, organize permanent relations --especially between finished goods producers and component suppliers-- and other tasks and projects the preparation and implementation of which extends to more than 1 plan year.

(5) Generally speaking long-term business contracts are to be concluded in the form of performance contracts on the basis of state plan targets of the five-year plan. In case the contractual provisions on annual deliveries, assortmand and quality cannot be completely or entirely derived from the balances or other plan targets of the five-year plan, cooperation partners are to conclude a contract on the preparation of supply or service relations rather than a performance contract.

(6) Combines, enterprises and facilities interested in the conclusion of a long-term business contract are entitled to request the balancing or balance-assigned organ to decide on the incorporation of the respective demand in the advance planning for the subsequent plan period.

(7) Long-term business contracts concluded as per paragraph 4 on the basis of the five-year plan are to be incorporated in the annual plans including

materials, equipment and consumer goods balances, provided this is not counterindicated by decisions of the Council of Ministers or central state organs.

(8) Balance decisions adopted in the course of plan implementation represent the basis for the conclusion, amendment or cancellation of business contracts.

(9) The provisions set out in the delivery decree govern the organization of contractual relations with customers in accordance with the scope of the decree on deliveries and services to the armed organs--delivery decree--(LVO).*

Section IV.

Tasks, Duties and Rights of Those Involved in Balancing

Tasks, Duties and Rights of Combines and Enterprises as Producers and the Superior Organs of the Producers

Article 17

(1) Combines and enterprises as producers are obligated to meet the economically justified demand on the basis of state tasks or state plan targets as well as other plan and balance decisions. To do this they must ensure

a) Meeting the demand in terms of volume, assortment, quality and delivery date,

b) The development of the enterprise production structure and the utilization and development of production capacities, especially in accordance with scientific-technological requirements on product functions,

c) The development of foreign trade relations and relations with their main domestic customers for the planned development of exports, the thrifty use of the necessary imports and the efficient use of domestic raw materials, secondary raw materials, other materials and components,

d) Encouraging the consumers in the technically and economically most appropriate use of the products,

e) The organization of stock, reserve and warehousing management as related to supplies,

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* Applicable at this time is the decree of 8 May 1972 (GBl II No 33 p 363) in the version of the decree of 8 August 1974 (GBl I No 44 p 465) and the second decree of 23 October 1975 (GBl No 42 p 689)

f) Coordination regarding the most rational method of circulation and the division of labor with regard to sales by way of the trade in means of production.

In the course of plan preparation and implementation they must provide the prerequisites for the realization of the necessary production development which is the basis of the state plan and ministerial balances. The decisions required must be submitted to the ministers.

(2) On the basis of the state plan targets of the five-year plan and the annual plan as well as the results of market research, assortment and sales conceptions and business contracts producers must carry out enterprise sales planning in coordination with the main consumers. On this is to be based the coordination of producers with the balancing or balance-assigned organs.

(3) In order to meet the economically justified demand for equipment and industrial plant as well as raw materials and substances in the appropriate assortment and at the proper dates, and consonant with the instructions of the balance-responsible ministries, the producers must--in coordination with the balancing organs or balance-assigned organs--prepare delivery plans and use these plans especially in the implementation of state plan, ministerial and selected combine balances. The ministers determine the products for which they confirm delivery plance because they deem them to be crucial for the efficiency of the economy or of important industries.

(4) Manufacturers of finished goods are responsible for the supply of replacement parts even if these are not produced by them. The balancing organs of the respective finished product are responsible for the necessary imports of specific type-related replacement parts. Imports of non-specific subassemblies and parts for replacement needs are to be planned and balanced by the balancing organs competent for these subassemblies or parts.

(5) In the case of those product headings of the balance register, for which no quantitative state targets are issued with regard to output: If substantial changes are envisaged as to volume and quality (by comparison to the respective plan period), producers must ensure that agreement on the volume of the production to be planned is reached with the competent balancing organ before preparation of the producers plan draft.

(6) To be coordinated with the balancing or balance-assigned organs are those changes in production and cooperation relations, which arise from the findings of long-range planning or the conceptual preparation of the five-year plan and scientific-technological development, socialist economic integration and market research.

Article 18

(1) For meeting as planned the economically justified demand, the superior organs of producers or organs with the same function (hereinafter designated

competent organs of the producers) must carry out the following tasks to secure the yield, especially by the intensification and rationalization of the social production and the purposeful use of funds:

a) The organization of an efficient production structure and materials use structure in coordination with scientific-technological development, which will respond to the requirements of domestic and foreign markets, including the planned increase in exports;

b) The further deepening of cooperation and specialization with the USSR and other socialist countries for the development and use of new products as well as advanced technologies and processes;

c) The assurance of the raw material basis by way of the agreements concluded with the USSR and other socialist countries as well as other international agreements in cooperation with the organs of the foreign trade, also the increased utilization of domestic and secondary raw materials;

d) The guarantee of the effective utilization and further development of basic assets to ensure production appropriate to demand;

e) The establishment of stocks on the supply side, differentiated minimum stocks mandated by the state, and delivery dates to ensure smooth-flowing supplies on the basis of state normatives and indices;

f) The assurance of the necessary proportions of the development of components and replacement parts relative to the development of finished products.

(2) By way of plan defenses the competent organs of the producers must guarantee that the producers plan drafts document the observance of the yield coordinated with the balancing or balance-assigned organs. In case of deviation the economic requirements must be enforced and the necessary corrections made.

(3) At the request of the balancing or balance-assigned organs the competent organs of the producers are obligated to participate in balance coordinations and submit appropriate suggestions and data on the organization of the production potential for securing appropriate supplies. The competent organs of the producers are obligated upon request to consult the balancing or balance-assigned organs for the plan defenses of the producers.

Tasks, Duties and Rights of Combines, Enterprises and Facilities as Consumers and the Superior Organs of Consumers

Article 19

(1) In their capacity as consumers, combines, enterprises and facilities are obligated to plan their demand while ensuring strict thrift, the greatest

possible utilization of domestic and secondary raw materials and the efficient use of imports. In doing so they must document to the balancing or balance-assigned organs their planned production development by way of the fund holders, and they must justify their demand by progressive standards and indices. In the process of product balancing consumers are responsible for

a) Increasing the effect of materials and energy management in all stages of their reproduction process,

b) Developing planned supply relations for appropriate supplies relative to volume, assortment, quality, time and price groups, including the organization of efficient storage, reserve and warehousing management.

To accomplish these tasks they must ensure the constant agreement of standards and indices of economic materials use and stockkeeping with the findings of science and technology in accordance with the legal regulations on the work with standards and indices of materials management and stockkeeping. For selected raw materials and substances calculations must be made regarding the efficiency of their use and the related replacement of traditional substances; they must also demonstrate the widest possible utilization of secondary raw materials. For machines and equipment it is necessary to include evidence of use and shift utilization in consumer planning. In the case of consumer goods the organs of the domestic consumer goods trade must actively strive for the efficient use of materials and capacities, design and use qualities.

(2) Consumers must carry out enterprise planning of demand relative to volume and value, assortment, quality and time on the basis of state tasks for the preparation of the five-year plan and annual plans, business contracts concluded or orders as well as standards and indices of economical materials use and stockkeeping.

(3) On the basis of enterprise planning of demand consumers must hand over consumer demand data to the superior organ for the purpose of coordinating the economically justified demand for the crucial headings established with the balancing or balance-assigned organs. Before handing over these data the consumers must coordinate the material-technological supplies for their production and service tasks with their most important suppliers. Supply problems arising in this connection, which, after reviewing all aspects, they are unable to decide upon on their own responsibility, are to be submitted by the consumers to the superior organ for decision or the initiation of a decision.

(4) With respect to the balance parts allocated to them consumers are entitled to require the suppliers fully to meet these balance parts by means of supply or service contracts.

Article 20

(1) The superior organs of consumers or organs equated with them as to function (hereinafter designated organs competent for consumers) must ensure the planning of the demand for products important to the economy from the aspect of the consumer. They must do so to the extent of the headings provided in the balance register for their sphere of responsibility. This planning must be based on evidence of the technically and economically justified demand by the respective progressive standards, normatives and indices of economical materials management and stockkeeping.

(2) The organs competent for consumers are obligated

a) To assess and review consumer demand planning established in paragraph 1 in accordance with economic requirements, initiate necessary changes for the improvement of material management and supply efficacy, to summarize demand data and submit them to the appropriate balancing or balance-assigned organs as the basis of balance coordinations;

b) To differentiate to the fund holders the balance parts received and consumption, taking into account the material assurance of tasks crucial to the economy, especially the tasks for the transfer to production of the results of science and technology, centrally planned investment projects, plant export projects, socialist rationalization and exports of products profitable in terms of foreign exchange. At the same time they must notify the balancing or balance-assigned organs;

c) To differentiate to the consumers the state plan targets for raising the efficacy of materials management including the use of secondary raw materials; they must also notify the balancing or balance-assigned organs;

d) To adopt or initiate the necessary decisions in case supply problems emerge, which cannot be dealt with by the consumers on their own responsibility;

e) To take the decisions required as per article 12 paragraph 1;

f) To ensure that the use of raw materials and substances generally proceeds on the basis of confirmed standards, normatives and indices of economical materials use and stockkeeping consonant with the scientific-technological standard, and that machines and equipment as well as plant are efficiently used and profitably employed;

g) To have the consumers furnish the appropriate evidence in plan defenses and reports relative to the status of contract conclusions, the results of measures for the enforcement of economical materials use, the development of storage, reserve and warehousing management consonant with economic requirements;

h) Promptly to reduce the funds available to the consumers if any part of demand requirements is unjustified and, at the same time, request the appropriate correction of the financial funds and call the perpetrators to account;

i) To appraise the results of consumer reporting and use them as bases for the further handling of supply tasks.

(3) The organs competent for consumers must review the imports appropriated in accordance with the relevant regulations.

(4) The organs competent for consumers are entitled

a) To redistribute balance parts within the scope of their state plan targets and in coordination with the balancing or balance-assigned organs, unless other provisions have been made;

b) To reject demand polls regarding product headings which contradict the extent of consumer data established in the balance register;

c) To reject restrictions on purchases for product herdings if these are not included in the nomenclature of products for which the balance parts are issued

(5) The organs competent for consumers must organize the systematic supervision of consumers regarding the accomplishment of the tasks listed in paragraphs 1-3. At the same time they must check the observance and economical utilization of the balance parts and make supply effective the necessary conclusions in the preparation and implementation of the economic plan.

Tasks, Duties and Rights of Balancing, Balance-Assigned and Balance-Confirming Organs

Balancing Organs

Article 21

(1) In their capacity as balancing organs the State Planning Commission, ministries, combines, economy managing organs and enterprises must, by constantly balancing the yield, actively affect the guarantee of a stable and dynamic rise in the efficiency of the economy as well as the demand and the effective use of the products. They must in particular start from the basic requirements listed in articles 6 and 7. This should be done in cooperation with combines, production enterprises, the organs of the foreign trade, the domestic trade in consumer goods and means of production, other economy managing organs and scientific institutions. The heads of balancing organs adopt balance decisions as per articles 10-14.

(2) In particular with respect to the planned organization of supplies for the public, the economy, the state and the export trade the balancing organs have the following tasks:

a) To review the demand for products crucial to supply and important consumers on the basis of progressive standards, normatives and indices of economical materials use and stockkeeping, indices of the utilization of available basic assets, utilization and efficiency proofs and their own computations;

b) To secure the material-technical supply needed for production and service tasks and, in particular, balance the material-technical security of the tasks involved in science and technology, socialist rationalization and crucial projects and tasks, furthermore the demand of supply sectors 7710 and 7770 and demand deemed of equal importance as per central instructions;

c) To secure appropriate and stable supplies for the public on the basis of supply plans and, when assessing the demand for consumer goods, ensure cooperation with the organs of the domestic consumer goods trade--starting with the ongoing analysis of demand development and supplies available.

d) In coordination with the trade in means of production to establish the planned component deliveries needed for the accomplishment of that trade's supply tasks and to assist the application of the funds listed in the balances;

e) To ascertain the demand for products pre-assigned by earlier decisions on material funds for subsequent plan periods, and to base on this the preparation of materials, equipment and consumer goods balances of the five-year plan and annual plans;

f) To affect economical materials use by the consumers as well as the efficient use of equipment, especially by the application of progressive standards and indices, the lowering of specific materials use and materials substitution, as well as--in accordance with economic requirements and possibilities, establish stocks at suppliers and customers on the basis of confirmed standards and indices. Here the results of special consultations with the Minister for Materials Management are to provide the bases.

Article 22

(1) In the discharge of their balance responsibility the balancing organs are authorized and obligated to enforce economic requirements even outside their scope. They therefore may, for the benefit of state plan and ministerial balances,

a) Require producers (with the involvement of the competent superior organ) to provide computations of possible improvements in performance so as to meet the economically justified demand and sales conceptions on the efficient use of highly productive equipment and plant, crucial energy sources, raw materials and substances, and consumer goods. They may also require them to submit conceptions and computations for the increased use of secondary raw materials. To this end and in agreement with the competent superior organs checks are to be carried out or initiated at the producers. The result of these checks are to be evaluated, and they are then to be made plan or balance effective;

b) Require state organs and economy managing organs involved in output and use to adopt the necessary plan decisions as per article 12 paragraph 1;

c) Together with the enterprises of foreign trade to precisely define the state plan targets for imports by way of coordination protocols and, on that basis, issue instructions on imports in terms of volume, assortment, quality and date. Here all possibilities for import savings and the efficient organization of imports within the framework of the total yield must be used, taking into account the possibilities for substitution and in cooperation with the competent state organs, combines and economy managing organs;

d) In agreement with the competent state organs and economy managing organs carry out or initiate checks on the observance of standards, normatives and indices of materials management and stockkeeping and state use regulations, especially at the main consumers. The results are to be evaluated;

e) Hand over to the organs competent for the consumers the state plan target "balance part" for the headings established as per the balance register;

f) For the improvement of the speed of reaction in the case of demand changes, especially with regard to the five-year plan period, to establish balance reserves as non-distributed yield in accordance with valid regulations and the directives issued by the balance-confirming organs. These reserves must be documented in the materials, equipment and consumer goods balances.

(2) Starting from scientific-technological requirements and demand development the balancing organs must, for the purpose of the proportional development of components and replacement parts, impose the corresponding requirements on the producers.

(3) To lower planning costs the balancing organs must concentrate the extent of the data and documentation provided in materials, equipment and consumer goods balances on the indices of yield and use crucial for balancing the material-technical proportions and interrelations, the justification of specific consumption and decision-making proposals with regard to meeting the economically justified demand.

(4) In cooperation with the producers and foreign trade enterprises the balancing and balance-assigned organs are responsible for the suppliers reporting of production, imports and use by fund holders or supply sectors in accordance with the materials, equipment and consumer goods balances, as per the regulations of the Central State Administration for Statistics. By their systematic analyses they must appraise reports from suppliers and consumers, discover reserves and at an early stage settle newly arising problems, especially problems of performance development, or initiate such settlement.

(5) Decisions taken in the course of plan implementation and involving substantial amendments to confirmed combine and enterprise balances must be ascertained by the balancing organs. Amended combine and enterprise balances must be submitted for checks and confirmation to the heads of the balance-confirming organs in the first month of each quarter. The confirmed amended balances are mandatory bases for balance reporting.

Article 23

(1) For the preparation and execution of comprehensive balances the balancing organs listed in the balance register primarily carry out the following tasks:

1. The coordination of the process of preparing, drafting and realizing the comprehensive balances;

2. The assurance of the balancing of all balances included in the comprehensive balance by standardized principles;

3. The preparation of targets and their assignment

    a) To balance-assigned organs for the preparation of variants with regard to the comprehensive balances,

    b) To the balancing organs to guarantee the agreement of the various balances with the aims of the comprehensive balances,

    c) To the superior organs of consumers in order to enforce economical materials use and stockkeeping;

4. The preparation and initiation of decisions on the comprehensive balances;

5. The preparation of comprehensive balances and their submission to the balance-confirming organ;

6. Checks by balancing organs in the preparation, drafting and implementation of the various balances.

(2) In the discharge of their responsibility for the individual balances included in the comprehensive balance the balancing or balance-assigned organs involved in comprehensive balancing are obligated

a) To submit the respective individual balances for coordination to the balancing organs responsible for the comprehensive balances,

b) To cooperate in the synchronization and coordination of the comprehensive balances,

c) To take into account the instructions by the balancing organs responsible for the comprehensive balances in the preparation, coordination and implementation of the individual balances included in the respective comprehensive balance with respect to appropriate production and effective utilization.

Article 24

Balance-Assigned Organs

(1) In cooperation with the State Planning Commission the balance-responsible ministries must involve the balance-assigned organs in the process of drafting and implementation of balances and hand the economic requirements over to them.

(2) In their capacity as balance-assigned organs combines and economy managing organs must, on the basis of the preset balances of the state plan nomenclature confirmed by the Council of Ministers and the instructions by superior ministers, prepare and coordinate the state plan and ministerial balances, especially by the preparation of suggestions on the development of efficiency, the improvement of materials management and the satisfaction of the economically justified demand. They must also implement them in the process of plan fulfillment by the organization of production and efficient cooperation relations.

(3) The heads of balance-assigned organs are obligated actively to affect the appropriate yield, demand and effective use on the basis of the respective state plan and ministerial balances. They are obligated to make assortment and delivery decisions for the smooth flow of material-technical supplies to the public and the economy, and to safeguard exports. This is to be done to actualize the state plan and ministerial balances in coordination with centrally confirmed balances. If problems arise from assortment and delivery decisions for economic efficiency and the development of the capacity of important industries, these provisions are to be submitted --complete with suggestions--to the balance-responsible ministers for their decision. In the interest of smooth-flowing supplies it is necessary to ensure prompt and unbureaucratic decisions. To be included here are funds and stock reserves not used or returned.

(4) The balance-assigned organs are obligated in the preparation and implementation of the state plan and ministerial balances closely to cooperate with the balance-responsible ministries and, via these, with the State Planning Commission and the supply sectors.

(5) Balance-assigned organs have the following special tasks in the preparation, drafting and execution of state plan and ministerial balances:

a) Preparation of the drafts of state plan and ministerial balances on the basis of preset balances and balance directives, and their defense to the balance-responsible ministers;

b) The exertion of influence on the assurance of the planned production and a dynamic and permanent rise in capacity to meet the economically justified demand;

c) The ascertainment of the economically justified demand by way of using the standards and indices of materials use and stockkeeping, reviewing the demand and the standards and indices of consumption as well as of stocks by key points and at the main consumers. The development of efficient market research in cooperation with the trade organs and of their own demand computations;

d) Coordinations in the process of the preparation and implementation of materials, equipment and consumer goods balances with the economy managing organs, organs of foreign trade, domestic consumer goods trade and trade in the means of production acting as fund holders or superior organs of the producers;

e) Ongoing work on the implementation of balances on the basis of the instructions issued by the superior balance-responsible minister, and checks of the enterprises involved in the yield with regard to balance implementation and the preparation and evaluation of reporting on the development of yield, consumption and stocks;

f) The preparation and suggestions for decisions on necessary imports by the balance-responsible ministries or the State Planning Commission, in accordance with legal regulations;

g) The development of material resources by lowering consumption in respect to stocks, the use of secondary raw materials and the yield of other assured sources.

Article 25

Balance-Confirming Organs

(1) The materials, equipment and consumer goods balances to be drafted are confirmed in accordance with competence as per article 3. The same applies to balance amendments.

(2) For the purpose of carrying economic requirements, material-technical proportions and interrelations, balance-confirming organs are obligated

a) To undertake the economic appraisal, review and coordination of the drafts of materials, equipment and consumer goods balances on the basis of preset balances and their own computations,

b) To supervise the observance of state instructions on the drafting of plans and balances,

c) To coordinate the tasks arising from balances with other plan parts, and the requirements of other plan parts with the balances.

(3) The balance-confirming organs are entitled and obligated for the exploitation of material resources to assign targets to the balancing organs or to request submission of revised materials, equipment and consumer goods balances if the balance drafts do not or not entirely meet the economic requirements. The same applies to balance amendments.

Article 26

The Trade in Means of Production

(1) On the basis of plans and balances and business contracts the trade in means of production must supply to the consumers appropriate products of the trade assortment. By rational trading operations it must contribute to the efficiency of cooperation relations in the economy. The trade in means of production must assign priority to the delivery of products of its trade assortment for the accomplishment of tasks of the state plan science and technology.

(2) By planning demand and stocks the economy managing organs of the trade in means of production must effectively assist the preparation of materials, equipment and consumer goods balances for products of the trade assortment and, by close cooperation with suppliers and consumers as well as balancing or balance-assigned organs, influence demand, appropriate production and supplies.

(3) In order actively to influence demand the economy managing organs of the trade in means of production are entitled, in coordination with the balancing or balance-assigned organs, to conduct demand defenses with regard to supply key points, including stock checks at the consumers.

(4) In order to safeguard its economic supply tasks the trade in means of production must develop its own skilled demand planning coupled with the use of specific types of demand documentation as well as electronic data processing.

(5) To safeguard the continuity and stability of supplies for the customers who obtain products via the trade in means of production, the justified demand of the trade in means of production must be met by the balancing organs within the framework of the balances.

(6) The economy managing organs of the trade in means of production are entitled for selected products to submit to the balancing or balance-assigned organs proposals for balance or assortment decisions for use with regard to the balance and supply parts of the trade in means of production.

Article 27

Tasks, Duties and Rights of Balance-Responsible Central State Organs

In their balance sphere balance-responsible central state organs must direct the preparation and drafting of materials, equipment and consumer goods balances of the five-year plan and annual plans in order to secure material-technical proportions, especially between components and finished products. They must also supervise the implementation of balances. In order to do so they draft preset balances and balance directives.

Article 28

Balance-Responsible Ministries

(1) In the preparation and drafting of materials, equipment and consumer goods balances for the five-year plan and the annual plans, and to secure appropriate yields as well as steadily improve materials management, balance-responsible ministries are obligated in particular

a) With the involvement of the balance-assigned organs to draft proposals on preset balances of state plan headings coupled with the appraisal of the results of long-term balancing and the analysis of plan implementation;

b) To prepare preset balances for the drafting of ministerial balances and supply them to the balance-assigned organs;

c) To publish balance directives for the preparation of the drafts of selected vital materials, equipment and consumer goods balances, especially for the assurance of the greatest possible supply stability and the improvement of materials management as well as for the development of reserves for raising efficiency;

d) To review the drafts of state plan and ministerial balances defended by balance-assigned organs, coordinate indices on production and demand development with the competent state organs, and hand over the drafts to the State Planning Commission, accompanied by suggestions for important problems which, after the investigation of all possibilities, they cannot decide on their own responsibility;

e) To coordinate the indices on public demand and potential availability with the Ministry for Trade and Supply;

f) To direct and supervise balancing and balance-assigned organs in the discharge of the tasks, duties and rights assigned them;

g) To issue state plan targets for the yield from production and other organs involved in the yield;

h) To fix short order and delivery delays regarding products for the material-technical assurance of scientific-technological tasks, for which demand cannot be specified at the time of order placement or contract conclusion cut-off dates;

i) To enforce strict criteria for the planning and review of imports as per the instructions in effect.

(2) Balance-responsible ministers confirm the combine balances to be prepared in the responsibility of general directors of combines and heads of economy managing organs as per article 3 paragraph 6.

(3) Balance-responsible ministers are responsible for the planned implementation of their balances. They must settle problems emerging in the course of plan implementation, which cannot be settled by the general directors or heads of economy managing organs on their own responsibility.

(4) To ensure a yield responding to the requirements of the proportional development of the economy as well as the development of the economically justified demand, ministries are to be appointed balance-responsible state organs for the products summarized in the product groups (four and five digits) of the product and services nomenclature, which are not balanced as per article 3. These provisions have to be issued together with the balance register. For selected single products which are not balanced as per article 3, balance-responsible ministries may appoint combines or economy managing organs and propose them to the Ministry for Materials Management for inclusion in the balance register.

Article 29

Ministry for Materials Management

(1) On the basis of the key tasks for the development of materials management and secondary raw materials management the Ministry for Materials Management drafts the central materials managerial tasks and projects and, in coordination with the State Planning Commission, passes them on to the heads of the competent central state organs for incorporation in plans and balances. Any changes in these tasks and projects require the approval of the Minister for Materials Management.

(2) In the course of the preparation of plan drafts by the industrial ministries the ministry ensures the review of vital headings of the state plan and ministerial balances regarding the development of demand and yield, taking into account the economical use of materials and rational stock keeping. For that purpose it submits to the ministries and the State Planning Commission justified and computed proposals for long-term and stable demand

supplies. To ensure the efficient use of vital raw materials, materials and components the minister carries out demand defenses.

(3) In cooperation with the heads of other central state organs the Minister for Materials Management guarantees the settlement of economic problems regarding material-technical supplies. He coordinates the necessary measures and makes the pertinent decisions. He is entitled to raise objections to the confirmation of materials, equipment and consumer goods balances with the heads of thecompetent central state organs, and to suggest different approaches.

(4) By means of the central balance inspection (including the state lumber inspection) and in cooperation with the State Planning Commission and other state supervisory organs the Ministry for Materials Planning ensures checks in all sectors of the economy with respect to the material-technical supplies needed to fulfill the five-year plan and annual plans by economic key points. In cases of infringement of the state order in the field of the balancing of materials management tasks and the use of materials and stock keeping, the minister issues mandatory directives for the restoration of legality.

(5) In cooperation with the other competent central state organs the Ministry for Materials Management enforces state supply policies in the centrally managed trade in means of production. In accordance with economic needs and in coordination with the competent balance-responsible minister, the Minister for Materials Management may provide for the temporary operational control of supplies of vital raw materials, materials and component products by the economy managing organs of the trade in means of production.

Article 30

State Planning Commission

(1) On the basis of the resolutions of the Socialist Unity Party of Germany and the Council of Ministers regarding the planned proportional development of the national economy, the State Planning Commission prepares decisions for the Council of Ministers with reference to basic issues of materials, equipment and consumer goods balancing. On behalf of the Council of Ministers the chairman of the State Planning Commission adopts decisions on the drafting of state plan balances. To that end he is authorized and obligated to issue assignments to ministers and heads of other central state organs within the scope of their responsibility, and to require them to supply the necessary computations and data.

(2) In the course of materials, equipment and consumer goods balancing the State Planning Commission is responsible in particular for:

a) The product-related advance balancing of the plan appropriation;

b) The preparation of preset balances of the nomenclature for the five-year plan balances and the state plan nomenclature for the annual plans;

c) The balancing of products of the state plan nomenclature in their economic interrelations. In so doing it must take into account the obligations arising from international treaties and international trade agreements;

d) The adoption and initiation of decisions on state plan and ministerial balances and the issue of balance directives to the balance-responsible ministries.

(3) In cooperation with the other central state organs and in the course of balancing the State Planning Commission ensures the efficient use of energy, raw materials and substances--including secondary raw materials--, components and equipment on the basis of technically and economically justified normatives and other indices of materials management. At the same time tasks are to be assigned to lower production consumption and increase the end product while ensuring the development of material stocks and reserves consonant with economic needs.

(4) The State Planning Commission is obligated to review the state plan and ministerial balances submitted by the ministries together with their plan drafts, especially efficiency targets and proposals for efficient utilization included therein, as well as demand documentations. This is to be done on the basis of the results of advance balancing and interrelation computations for the benefit of the development of further economic reserves. Following this, these balances are to be coordinated and balanced consonant with general economic needs. The state plan balances are to be submitted to the Council of Ministers for confirmation.

Section V.

Stocks and Reserves

Article 31

The Establishment and Use of Stocks and Reserves

(1) To ensure the smooth flow of the economic reproduction process, planned material stocks and reserves must be established and structure rationally at the time of materials, equipment and consumer goods balancing, on the basis of state plan targets and progressive normatives of stock keeping (from the delivery and consumption aspect). The establishment and use of stocks and reserves must proceed with the aim, in particular, to raise the efficiency of the reproduction process, the security of deliveries and the flexibility of delivery relations coupled with the reduction of stock intensity.

(2) In coordination with the balance-responsible ministers and the Minister for Materials Management, ministers and heads of other central state organs

must issue instructions for the development of state mandatory and differentiated minimum stocks for vital items in accordance with the centrally established nomenclature.

(3) The development of the state reserve provided for in the five-year plan and the annual plans is the mandatory basis of materials, equipment and consumer goods balancing.

(4) Especially in the course of the preparation and drafting of plans the balancing organs must establish balance reserves in order to improve the smooth flow of supplies. Balance reserves are to be shown in the product balances. Entitled to dispose of balance reserves are the heads of the balancing organs, unless the head of the superior organ has reserved such disposition to himself. The heads of balancing organs may delegate disposal authority to the heads of subordinated organs or the organs of the trade in means of production together with balance directives with respect to state plan quotas.

(5) An enterprise reserve of purpose or product-related replacement parts (breakdown reserve) is to be established to enable enterprises promptly to deal with breakdowns of equipment or plant vital to production. The size of this breakdown reserve is to be decided by the general directors of combines or heads of economy managing organs, appropriate to the product.

Article 32

Reserves

(1) In coordination with the balance-responsible ministers, ministers may establish reserves for selected products (ministerial reserves). These must be obtained within the limits of available funds and recorded in the balances.

(2) The nomenclature for the reserves to be established must be decided by the respective minister in coordination with the Minister for Materials Management and the chairman of the State Planning Commission with respect to the five-year plan and the respective annual plans.

(3) The chairman of the State Planning Commission is authorized to issue instructions for selected sectors, regarding the minimum size of these reserves.

(4) Entitled to dispose of reserves are the competent industrial ministers in coordination with the Minister for Materials Management. In the case of reserves, the minimum size of which has been set by the chairman of the State Planning Commission, his approval must be obtained before they may be disposed of.

(5) The financing of economic reserves must be taken into account in the five-year plan and annual plans. The reserves established are not subject to the production or trade fund tax.

(6) Keepers of reserves must finance them within the framework of state plan targets. The grant of loans on preferential terms to finance reserves proceeds in accordance with legal regulations.

Section VI.

Regulations Governing Financial Sanctions and Administrative Penalties

Article 33

(1) Balancing and balance-assigned organs which neglect their duties--fixed in legal regulations--regarding the discharge of their balancing functions by

a) Delaying balance decisions, in particular by nonobservance of fixed dates as per article 11 paragraph 2,

b) By a balance decision or the proposal for a balance decision extending preferential treatment to subordinated enterprises, combines or facilities to the deteriment of nonsubordinated enterprises, combines or facilities,

c) Changing confirmed materials, equipment and consumer goods balances without obtaining confirmation by the balance-confirming organ,

may be obligated to pay a financial sanction ranging from M1,000-50,000, if they operate in accordance with economic accounting.

(2) A financial sanction of up to M500,000 may be imposed if duties with respect to the balancing function as per article 1 were grossly neglected, or if substantial economic damage was caused or could have been caused by the dereliction of duty.

(3) The financial sanction is levied by the balance-responsible central state organs. The central organs superior to the consumers are entitled to appeal to the balance-responsible central state organs with regard to the imposition of financial sanctions.

Article 34

(1) Combines, economy managing organs, enterprises and facilities which have submitted unjustified claims for products to the balancing or balance-assigned organs, must pay financial sanctions to the balancing or balance-assigned organs in the amount of 10 percent of the industrial sales price--related to the unjustified section of the claim--, provided they operate in

accordance with economic accounting. This holds good also if the unjustified claims are forwarded to the balancing or balance-assigned organ by way of the supplier or fund holder.

(2) An unjustified claim is present if

a) The claim does not correspond to state plan targets, normatives and standards of materials or energy consumption or stock keeping management, or if the use of primary and secondary raw materials, substances or other materials provided for in legal regulations does not occur at all or not completely;

b) If the claim infringes the state order in the field of imports by generating economically unjustified imports or failing to use them efficiently;

c) If the claim does not agree with other plan parts;

d) If the claim results from the inadequate utilization of own supply sources at the time of demand planning.

(3) Financial sanctions as per paragraphs 1 and 2 are not to be imposed if reductions in demand claims arise from state plan quotas, the development of reserves or the use of above standard stocks, and if the balancing or balance-assigned organ is so notified with the delays specified in article 14 paragraph 2.

Article 35

(1) Financial sanctions as per article 33 are paid to the state budget. To compensate for the economic disadvantage suffered, the balance-responsible industrial ministries or economy managing organs should allocate appropriate moneys to the combines, enterprises or facilities disadvantaged by balance decisions as per article 33 paragraph 1 letter b. They are to use the resources of the reserve fund in those cases where the disadvantage can no longer be made good by the cancellation or amendment of the balance decision.

(2) Fifty percent of the financial sanctions paid are to be allocated to the reserve fund of the balancing or balance-assigned organ, and in the case of enterprises to the reserve fund of the superior organ. If, in accordance with legal regulations, the balancing or balance-assigned organs or their superior organs do not hold reserve funds, these moneys are to be booked as revenues independent of performance and result-effective. The other 50 percent are to be paid to the state budget. If financial sanctions are imposed only at the orders of state control organs, all of the money must be paid to the state budget.

(3) To be applied mutatis mutandi in the payment of financial sanctions are the provisions of the contract law on material responsibility with respect

to offenses against business contracts. A financial sanction as per articles 33 and 34 may be imposed only until the end of the year following the dereliction of duty.

(4) The State Contract Court is competent to decide disputes about the payment of financial sanctions as per article 34.

Article 36

Provisions on Administrative Penalties

(1) The heads and senior staffs of the organs, combines, enterprises and facilities involved in the balancing process must guarantee the exact implementation of the tasks, duties and rights as per this decree. Unless disciplinary proceedings are considered more suitable, a reprimand or administrative fine ranging from M50-500 may be imposed on anyone who, deliberately or negligently, in his capacity as head or senior staff member of a state organ, economy managing organ, combine, enterprise or facility, offends against plan or balance discipline, by either causing or permitting

a) In contravention of legal regulations the breakdown of state tasks or state plan quotas to remain incomplete,

b) In contravention of legal regulations balanced material funds to be used for unplanned tasks or projects, or deliveries and services made in contravention of state plan quotas issued or without the conclusion of business contracts,

c) Material funds or balance parts which turned out to be superfluous not to be returned,

d) Unplanned stocks to be established.

(2) Major damage caused (or which could have been caused) by a deliberate administrative offense as per article 1, may result in the imposition of an administrative fine of up to M1,000.

(3) The conduct of the administrative penalty proceeding is the responsibility of the hads of superior central state organs and chairmen of bezirk councils.

(4) The law of 12 January 1968 on combating administrative offenses-OWG--(GBl I No 3 p 101) applies to the conduct of administrative penalty proceedings and the imposition of administrative penalties.

Section VII.

Concluding Provisions

Article 37

(1) Ministers and heads of other central state organs are authorized to issue implementing regulations for their sphere of responsibility. They do so after consultation with the chairman of the State Planning Commission, the Minister for Materials Management and the heads of other competent central state organs.

(2) The chairman of the State Planning Commission in coordination with the Minister for Materials Management and the heads of other central state organs issues the methodological regulations required to carry out this decree.

Article 38

(1) This decree takes effect upon publication. Articles 33-36 take effect on 1 February 1980.

(2) Losing effect at the same time is the decree of 20 May 1971 on materials, equipment and consumer goods balancing--balancing decree--(GBl II No 50 p 377).

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GOVERNMENT ESTABLISHES SYSTEM TO CONTROL LICENSE TRAFFIC

Budapest TERVGAZDASAGI ERTESITO in Hungarian No 5, 7 May 80 p 59

[Text of Joint Decree No 1909/1980 KkM-OMFD of the Ministry of Foreign Trade and of the National Technical Development Committee Concerning Thematic Information System of Patent Licenses Turnover]

[Text] In order to make the purchases of foreign technical knowledge and results, licenses and know-how (henceforth: license) more systematic, and for the purposes of making the guidance of the turnover in patent licenses more effective, the National Technical Development Council--on the basis of a resolution by the Council of Ministers--has established the Thematic Information System of Patent Licenses Turnover (henceforth: LTIR).

The purpose of the information system is:

--to aid in making well-founded decisions concerning the acquisition of foreign technical knowledge and developmental results;

--to enable guiding and leading organs to be thoroughly informed about developments on patent license urnovers, and about tendencies in the purchase patents.

At the LTIR, information will be available:

--on data of foreign patents already purchased by Hungarian economic organs;

--about patent licenses that are being considered for possible purchase, or whose purchase awaits only the appropriate approval;

--about the patent license purchasing intentions of various Hungarian economic organizations and branch guiding organs;

--as well as on the chief data of

-already purchased patent licenses
-intended purchases of patent licenses and
-patent licenses made available to each other by the CEMA member states.

The registered data will be stored by the LTIR under various headings (e.g., the object of the license, the names of the sellers and of the purchasers of the license, the year of the purchase, etc.). This will make it possible to "interrogate" the data base, and thus find in the register the thematic data on the appropriate license or licenses on the basis of the various headings.

Naturally, it will also be possible to interrogate the system under any combination of the headings.

On the basis of the OMFB's [National Development Technical Committee] designation, with the approval of the Ministry of Foreign Trade, the LTIR's operator will be the INTERCOOPERATION Trade Developing Enterprise (1253 Budapest, I. Pf. 53, Attila ut 12). The services of the LTIR can be utilized--in line with the terms of the valid decrees concerning data handling and secrecy protection, and upon a written request--by the ministries, by organs with national scope, and by various institutions of the socialist economy. Written requests must be directed to the general manager of the INTERCOOPERATION Trade Developing Enterprise.

The need to protect company business secrets permits only the granting of "signalling" information. In such instances, the applicant, on the basis of the data supplied to him, must turn to the original source (e.g., to the purchasing company) for more thorough information.

The LTIR will provide detailed information of its services, which until further notice is to be given free of charge:

Intercooperation Trade Developing Enterprise
Multinational and License Policy Department
Istenhegyi ut 9/b Pf. 53
1253 Budapest XII, Hungary
Telephone: 353-765, 169-967, 169-826; Telex: 22-44-44.

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CSO: 2500

HUNGARY

EFFECTIVENESS OF INVESTMENT POLICY WEIGHED

Budapest PARTELET in Hungarian No 5, May 80 pp 50-53

[Article by Janos Dudas, main department head, Central Bureau of Statistics: "The Implementation of Investment Policy"]

[Text] Investments--especially from a long-range viewpoint--play a very important role in economic growth, in changing the agricultural system, in expanding international economic relations, in increasing competitiveness, and not least, in improving living conditions.

Investment activity has broadened significantly during the years of the Fifth Five-Year Plan. This is shown by the fact that between the years 1976 and 1979 a total of 816 billion forints were expended for this purpose, compared with 661 billion during the time of the Fourth Five-Year Plan. Investments in past years have expanded the performance capability of raw-material production, manufacturing, building, agriculture, transportation and communication, trade, and services, and conditions for communal supply have been improved.

Along with these favorable results, difficulties are also well known. During the time of the current five-year plan, for example, investments--particularly in the years 1977 and 1978--differed substantially from planned levels, they were not adapted sufficiently to conditions of economic balance either domestically or internationally, and they did not serve unequivocally the demands of efficiency. All this pointed to the fact that investment activity had become basically detached from realistic possibilities. This was expressed by the strong intensification of tensions in the investment market, which persisted until the end of 1978, in an increase in unsatisfied demands for construction, and in a significant increase in the number of investments in progress and uncompleted. This made it necessary to bring investment activity into better harmony with the main goals of our present economic policy, improvement of balance in the national economy.

During recent years, a number of decisions and actions have been taken to reduce tensions and improve balance in the investment market. Among these are: regulation of the outflow of investor purchasing power, restraint on the initiation of new investments, and encouragement and assistance in concluding investments in progress. But stabilization of the investment market has been helped by postponement of large new state investments as well. On the other hand, the development of the structure of the national economy is promoted by giving preference and financial support to investments to expand inventories of hard-currency export goods. In addition to these, the modified system of economic regulators introduced at the beginning of this year is also helping to broaden decision-making according to principles of efficiency, determine optimum expenditures according to feasibility, suppress investments which are not absolutely necessary, increase responsibility on the part of decision-makers, strongly restrict state support, and as a result regulate accumulated purchasing power more methodically and selectively.

Naturally the effects of the correction applied at the beginning of this year are not yet visible. On the other hand, the combined effect of actions to regulate the investment market in recent years can be felt. The essence of this is that investment activity in 1979 already reflects strengthening of principles of planning and more pronounced implementation of requirements connected with improvement of balance in the national economy. All this can be said in spite of the fact that we are still basically only beginning to organize the investment market and restore and solidify its balance, and the tasks remaining to be accomplished are not insignificant.

Better implementation of planning is being demonstrated by the fact that the main investment directives of the national economic plan were in general accomplished during the past year, under conditions in which the plan itself directed a reduction. Total investment in the national economy was 225 billion forints, of which 204 billion was composed of investments by socialized organizations, corresponding to the lower limit of the planned 204-206 billion. Of this amount, a larger amount than planned, approximately 93 billion forints, was spent on investments by the central government, and a smaller amount than planned, some 111 billion forints, was spent for investments in the areas controlled by enterprises and collectives.

Last year's total investments by socialized organizations is basically the same as the previous year's in comparable terms. This shows that the fast growth in investments experienced in recent years has been successfully "braked" or stopped. Harmony between creation of national income and development of investment activity has improved somewhat, mainly in that investment energy has adjusted better to growth of national income.

Many positive changes can be observed--mainly from the point of view of planning and improvement of balance. For example, the structure of areas of investment-decision making has changed. For the first time in a long while it happened that state investments grew faster than investments by enterprises. So--in accordance with the plan--the state's share of investments increased.

In the area of investments by the enterprises, a strong suppression of unplanned, "creeping" growth has been accomplished. In investments by the central government, on the other hand, a basically planned investment activity has been taking place instead of the delays that have occurred so frequently up to now, in fact state investments during the current five-year plan exceeded the planned level last year for the first time.

The amount of large investments within total state investments increased significantly last year. So an increasing share of state investment expenditures (31 percent in 1979) went for them. With this, harmony between planned and actual accomplishment in large investments has improved. In place of the large-scale cancellations experienced in recent years, unplanned delays have been reduced. This has been made possible on the one hand by the fact that large new investments were not begun in 1979 and on the other hand by spending amounts greater that planned on large investments, concentrating effective capacity. Of the 38 large investments awaiting fulfillment in 1979, 9--2 less than planned--were completed. The tasks remaining in this area are well illustrated by the fact that the amount needed to accomplish the 29 large state investments now in progress is approximately 100 billion forints, about 3.5 times current expenditures for a single year.

Among state investments, target-oriented investments (whose share is now 49 percent) have grown the fastest. Among them, larger-than-planned investments have been made in central housing construction, regional water works, and railroad transportation. Other state investments--which last year were 20 percent of the total--have grown in modest proportions corresponding to the trend of recent years.

The greatest proportional change--in harmony with investment policy and the aims of the plan--can be seen in the investments by enterprises, which make up 54 percent of investments by socialized organizations. This is just because the differentiating and restraining effect of modifications in regulators have been implemented mostly in this area. As a result, last year (in contrast to the practice of a long period of time) it did not increase, but just the opposite: the amount of investment by enterprises decreased in comparison to the previous year. Before that, 1972 was the last year in which investments by enterprises lagged behind the previous year. It is a noteworthy phenomenon that in this area, restraint has worked so "well," that not only did a decrease in amount occur, the volume of investments did not even reach the planned level. Before this, a similar situation last occurred in 1973, when investments by enterprises similarly fell below the planned level.

This is a significant change, because in recent years a large-scale overfulfillment of the investment plan by enterprises has been the rule. This situation was promoted also by the fact that development by enterprises of sources of funds for the purpose of stock-piling exceed the amount planned. The effect of monetary measures during the past year has greatly decreased the growth of funds in the enterprises for stock-piling. In 1979 the growth was all together 3.2 billion forints, or 1.6 percent. During the past year the use of external resources did not reach the planned level either.

In the utilization of both internal and external resources by enterprises, a strengthening of selectivity can be seen. Within the amount of credit used for financing investments by enterprises in 1979, which amount was less than planned, the portion of credit extended for investments to increase inventories in order to improve international economic balance increased. In all, an increasing portion of investment by enterprises is comprised of investments to increase export inventories. Our investment policy insures for the long-turn as well priority for investment by enterprises to produce competitive goods with a fast return.

It is noteworthy that after the strong growth of recent years, the number and amount of investments by enterprises in process of fulfillment decreased last year. This circumstance is doubtless connected with the modifications in regulators, and partly with the forcing effect of conditions, but it also reflects the beginning of a change in investment attitude by enterprises and an increase in prudence.

A new phenomenon in investment activity by enterprises is the significantly smaller number and amount of new investments compared to previous years. The number and amount of completed investments in 1979 considerably exceeded those of new investments begun: industrial enterprises started 46 percent fewer investments larger than 25 million forints in size in 1979 than in the preceding year.

The material-technical composition of investments has changed partly for the better, but also partly unfavorably. In harmony with our aims, in recent years the portion of machinery investments within total investment has increased, and the portion for construction has decreased. Last year, on the other hand, and different from trends up to now, the portion of investment for construction increased at the expense of investment in machinery--mainly because of an increase in the proportion of state investments, which had a high proportion of construction. (The share of construction was 4.5 percent in 1978, 46.9 percent in 1979; the shares for machinery were respectively 45 percent and 43.9 percent.) Taking into account the less "active" role of construction investment, an increase in the share of investment for machinery and a moderation of investment for construction will be justified in the future.

An advantageous feature in the change in the material-technical composition is the fact that, in contrast to the previous year's very high level, imports have moderated; within that, the portion of investments in machinery imported from non-socialist countries has decreased. This shows that in harmony with central goals and the development of conditions for international balance, the effect of measures for import management is also beginning to be realized. This is particularly striking in investments by enterprises: expenses for investment by enterprises in the import of machinery from non-socialist countries decreased by some 22 percent.

Investment activity will reach its ultimate goal when investment takes place properly, in line with its function. As a result, there is great value involved in getting investments underway. The number and amount of completed investments last year exceeded both the previous year's level and that of the new investments started, and it grew faster than this year's expenses as well. This is favorable, because it shows an accelerating process of accomplishment, which is well-known to be a factor that increases productivity.

We have succeeded in increasing the degree of preparedness of investments (which reached an average of 56 percent). The degree of initiating investments in progress, which exceeded 30 percent last year, has improved.

Last year's level of investments basically was the same as the previous year's. Besides, the increase in completions and the amount by which they exceed investments begun resulted in a decrease in the number of investments in progress. Thus the trend started previously--according to which the number of investments in progress grew faster than the annual expenditure--changed during 1979 in a favorable direction. As a result of all these things, even if not in sufficient degree, we have succeeded in moving ahead in realizing the requirement that investment resources must be concentrated on investments in progress.

However, the value of investments in operation even last year lagged behind annual expenditures by some 20 billion forints, thus the amount of uncompleted investments (the amount of which in the socialized sector is some 195 billion forints) grew. The growth in the amount of uncompleted investments was, however, somewhat less the previous year's. This is without doubt only a modest step forward.

Just as the results of investment activity are not self-evident, so the deficiencies will not stop by themselves from one day to the next. As the experiences of last year's investment activity show, we have been able to take the first steps. We can, however, expect a successful and fundamental change in investment activity only when the desired trends are achieved throughout the whole cross-section of investment activity and on a continuing basis.

This year as before, investments which improve balance, expand inventories of export goods that can be easily marketed, provide substitutes for imported goods, raise the level of productivity, and develop its structure are at the center of focus. It must be expected that investment policy with its stricter conditions will not count as a transitional, short-range factor. Trends in world economics, the situation of our economy, and the level of efficiency in investment activity as well as the reserves therein should stimulate us all to evaluate our possibilities more realistically, and to make more rational and effective use of every forint and capacity expended on their development. This is the guarantee that even without a significant increase in investment activity we can intensify its contribution to raising the basic technical level and increasing productivity. Better cooperation among planners, investors, and executives and a determined attempt by those who work on and are concerned with investments can contribute to a methodical and successful implementation of our investment policy.

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CSO: 2500

BUDAPEST HOUSING CONSTRUCTION EXAMINED

Budapest FIGYELO in Hungarian No 18, 30 Apr 80 p 3

[Article by Dr Pal Sandor: "New Housing Settlements; to Tear Down and Build"]

[Text] In the framework of apartment construction in Budapest, during the timeframe of the first 15-year apartment construction plan (between 1961 and 1975), 187,000 apartments were built, and during the period of the Fifth Five-Year Plan (1976-1980), we can expect the construction of some 90,000 apartments.

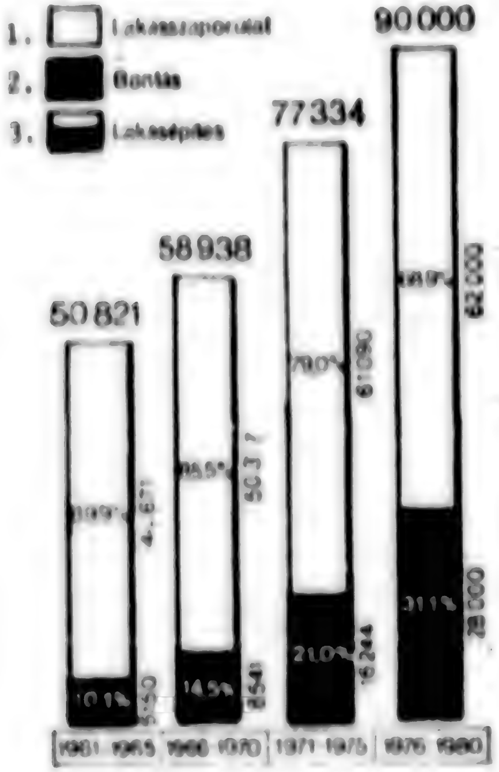
This means that in two decades, there will be a new apartment for every seventh inhabitant of the capital.

Despite the quickening pace of apartment construction, it has still not been possible to establish a balance between the number of dwellings and the number of families. Today, there are still 180,000 families without their own apartment living in Budapest, to whom must be added the number of those waiting for larger and more comfortable apartments. In addition, apartments must also be secured for those living in technically outdated buildings that must be torn down. We must also reckon with the population moving into the capital city.

Actual Apartment Increase

Thus approximately 300,000 to 350,000 new apartments will be needed in Budapest in the next decade. To meet this need--beyond the investment situation of the moment--it will be necessary to raise the established technical standard and the present level of organization.

Apartment Construction, Demolition and Apartment Increase



KEY: 1. Apartment increase
2. Demolition
3. Apartment construction

At present, we build in 5 years as many apartments as we used to build earlier in 7 to 8 years. However, it is hardly possible to divide more among those who have been waiting for a long time, since the actual surplus hardly reaches a few thousand dwellings annually.

The Drawback of Industrialization

The increase of the actual number of apartments, however, is not the same as the number of apartments built because the construction of housing settlements is accompanied by a rising number of building demolitions, as a result of which many exchange apartments must be found.

In the past 20 years, the apartment construction volume grew by 15 to 20 percent in each medium-range plan cycle, while demolitions doubled every 5 years. The two extremes are characteristic: Budapest's apartment construction program was carried out with the demolition of 5,000 apartments between 1961 and 1965, and of more than 16,000 between 1971 and 1975; 77,000 dwellings were built during the first period and 77,000 during the latter, meaning that nearly half of the apartment increase was "eaten away" by demolitions.

Naturally, all this is clearly favorable as long as technically and socially outdated settlements had to be eliminated, for example, the old Valeria settlement or the phase now being completed at the Pesterzsebet housing settlement. In the present areas under reconstruction, however, since buildings that are old but still in good condition could not be fitted into the new environment--we are also tearing down an increasing number of relatively modern houses and apartments.

One can mention as examples the housing settlement of Pestlorinc in the Vorosmarty St and Barcsay St blocs where it was necessary to expropriate and demolish family houses most of which were in good condition, houses worth millions in Kaszasdulo and Pok Sts in the Third District, or the villa district of Csillaghegy.

During the next period, we will face several similar problems since the technical and moral balance of the buildings in the presently built-up urban areas designated for mass apartment construction is relatively mixed. Buildings condemned to demolition can be found side by side with modern buildings and buildings suitable for renovation.

Both professional circles and the population are constantly debating whether it is necessary to tear down en masse dwelling houses in good condition or even from time to time new dwelling houses in the interest of area uniformity.

Expropriations

The reason for the established planning and construction method can be summed up as follows: the buildings of the new housing settlements and the constructions to be connected to them are also turned out industrially, thus the emplacement of the houses is extremely restricted, on one hand, because of size requirements and, on the other, because of orientation requirements. In the course of planning, the new buildings can be fitted among old ones only with considerable difficulty.

Demolition is also required by the fact that in general, the public works supply of new housing settlements can be established in many cases only through the demolition of buildings.

There are areas--primarily along the Danube--where the street level of new housing settlements must be raised because of floods or inland water protection reasons, thus the family houses standing there must also be torn down. The method of heating the existing one- and two-story houses is also causing difficulties in the environment of the new 5- to 10- story buildings since the combustion product of traditional heating gets into the higher rooms of the new dwellings. Financial and other regulatory conditions for the modification of the public works and heating methods of the existing buildings are not ensured.

In the course of the construction of housing settlements, at the time public works ducts and roads are built, it is relatively difficult to ensure normal living conditions for the residents of the family houses lying in the construction area. The need for demolition is increased by the growth of the number of construction areas opened and the length of the completion deadlines. In a given plan period, the higher the number of buildings in good conditions utilized in the base of operations, the smaller the increase in the number of apartments. Because of organizational reasons, the apartments already evacuated but not yet taken into hand similarly decrease the chances of old and new apartment petitioners.

Renovate the Outdated

It can be seen from the data of the year 1979 that the amount set aside for expropriations because of apartment constructions is relatively high: Budapest spent 874 million forints for this purpose. During the same period--in the same areas--760 million forints were spent on housing settlement school, nursery school, commercial, health-care and services constructions, and 575 million forints on housing settlement public works constructions (including park and road construction). The amount paid out for expropriations would be sufficient to build approximately 2,000 apartments. (These figures do not include the value of the dwellings under state ownership since those can be put to use without compensation, together with the dismantled public works and roads).

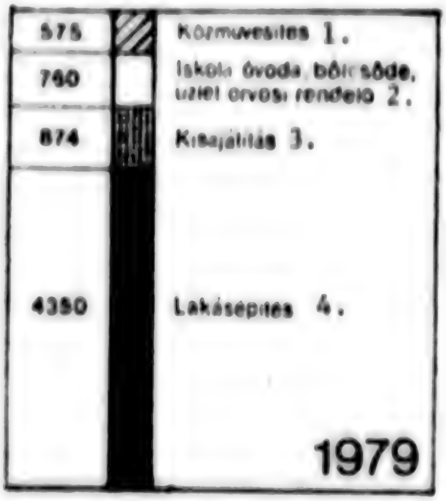
Another cause for reflection is the fact that the average price of requisitioning an expropriated apartment reaches the expense of manufacturing a new apartment (440,000 forints), and that the value of some 20 percent of the expropriated dwellings is close to 1 million forints. (Five years ago, the average expropriation cost was still half the value of a new apartment).

It is also worth paying attention to the tendency for the size of the apartments eliminated to exceed in many cases the size of the newly-built buildings. Among the target group dwellings built in Budapest in 1979, 5.2 percent had 3 or more rooms, while 17 percent of the dwellings torn down had 3 rooms or more. It is true that from the viewpoint of degree of comfort and public works supply, the standard of the new apartments is higher than that of the buildings torn down, but this can be made up without reorganization; in most cases, there are possibilities for the construction of adjacent rooms and supplementary constructions.

Also, one cannot remain indifferent to the fact that a significant portion of those living in family houses in the expropriated areas build a new family house after the expropriation and demolition, which ties down a new area for public works, not to mention the construction materia and capacity needed for traditional construction technology.

One can raise the question: why are we not building only on free, empty spaces, such as for example, at Ujpalota, Bekasmegyer, Kaposztasmegyer or eventually on the Teteny plateau? The experts are of the opinion that the opening of these new housing settlement areas--their public works and transportation needs--would create such abrupt construction needs, would tie down such capacity and money sources that their size just cannot be matched.

Most Important Cost Items of Target Group Apartment Constructions in Budapest in 1979 (million forints)



KEY: 1. Public works
2. School, nursery school, creche, store, doctor's office
3. Expropriation
4. Apartment construction

Lacking Interest

One can also reflect upon the fact that renovations and demolitions did not take place in technically outdated areas, while at the same time we are carrying out large-scale building demolition tasks in technically and socially sound settlement areas. There are still at present some 32,000 apartments in Budapest where one's life is in danger or near danger, and where reorganization would truly be urgent. Here again, the most difficult problem is that the dwellings in poor condition are located in a mixed (dispersed) manner in the various town sections and blocs of the capital.

The increase of the capital's apartments can be economically solved by organically harmonizing the construction and demolition of technically and sociologically outdated districts with the renovation and modernization activities. Modern industrialized construction and traditional renovation and modernization must be applied jointly. The buildings standing in the areas under reconstruction could be put to use after expropriation by changing their function. The look of the new housing settlements would undoubtedly become more colorful inasmuch dwelling houses in good condition but temporarily evacuated because of the organization of construction would later be fitted into the new environment. On one hand, this would make the use of expropriated buildings more economical, and, on the other, it could ensure the functioning of nursery schools, eventually schools, commercial and catering industry establishments following the addition of service rooms (kitchen, bath, and so on). The lifestyle of the housing settlements would be favorably affected if these family houses would be handed over to youth clubs or libraries.

For several reasons, these are only possibilities at present. Beyond the difficulties in planning, the executing enterprises do not possess a traditional construction capacity either and thus stay away from constructions going beyond industrialized execution. Expropriation regulations do not promote the preservation of expropriated buildings and their transfer to other owners. The reason for this is that the expropriated building should be bought off to the debit of the new owner's investment fund and it is not certain whether he can fit it into his own management and development plans.

In Budapest's apartment construction, we must focus on the increase of the number of dwellings as well as the primary requirement of eliminating the dwelling shortage, and the acceleration of the pace of construction can be allowed to take place only to the limit of rational area acquisition. Until the method and regulations for this are worked out, the demolition of buildings whose value (440,000 forints per apartment) approaches that of new dwellings, must be stopped--must be suspended.

The use of the competition system would represent a big help in solving the task since this relatively complicated task cannot be solved without the above-average work of planning experts. Expropriation and connected activities are today primarily legal activities and regulation also belongs to this sphere. Effective area utilization--beyond the state administration ensuring legality--must be fitted primarily as a technical-economic activity into the interest and management system.

I am convinced that any kind of reason which would divert the technical and economic organization related to the construction of new dwellings toward the path of least resistance is unacceptable, especially in the present situation of the national economy.

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CSO: 2500

EOCENE PROGRAM PROMISES SIGNIFICANT COAL WEALTH

Budapest HETFOI HIREK in Hungarian 12 May 80 pp 1,3

[Interview Of Dr Istvan Tamasy, deputy general manager of the Hungarian Coal Mining Trust, by Andras Munz: "Where Does the Eocene Program Stand? Prospecting Indicates Significant Coal Wealth"]

[Text] Coal wealth. The word has regained its true meaning: throughout the world, coal, once again, is worth a fortune. According to the eocene program which will considerably modify the features of Hungarian coal mining, the mining works being gradually opened or reconstructed will provide eocene-age 4,000-calory brown coal, more than half of the country's present total output. Exploitation began in 1977.

[Question] Recently, however, one hears that the pace has slowed down. Is it true that the impetus of the work may have stopped?

[Answer] It is true and it is not. The eocene program approved by the State Planning Committee at the end of 1976 calls for the construction of a power plant with a capacity of close to 2,000 megawatts at Bicske and its gradual putting into operation between 1982 and 1986. Four new mining works to be started (Markushegy, Nagyegyhaza, Many, Lencsehegy II) and two reconstructions (Dudar, Balinka) have joined forces to serve this power plant. The original plans foresaw the further rapid growth of the need for energy and the earlier dynamism of its development. Basic changes have occurred since then. In conformity with the present carrying capacity of the national economy, investments are growing at a more moderate pace, and for reasons of rational economy, the need for energy is smaller than planned in the past. These factors made it possible and necessary to modify the original plans. The putting into operation of the Power Plant of Bicske--according to what we know so far--can be expected only during the second half of the decade.

[Question] And what about the opening of the mines?

[Answer] Here, the program has also been modified but in two directions. A new element is that in certain locations, we will need more coal than we anticipated. The needs of the population have not decreased, and the switching of the industrial consumers using coal to other energy sources has stopped. Thus the consumers will need and use the coal produced in the planned mines and the reconstructed plants from now until the power plants will be put into service. The change amounts to the fact that we have accelerated and expanded the opening of the Markushegy and Nagyegyhaz mines. At Markushegy we reached the first coal seam in April. These two plants will produce coal in 1981, 1 year earlier than planned.

The opening of the other two mines and the reconstruction of the old ones will be completed later than originally planned. At Many, construction of the mine began last year. The planning of Lencsehegy II is now under way. Thus the original program was modified only as far as timing is concerned. The goal remains unchanged: the extraction and utilization of a brown coal reserve sufficient for 30 to 35 years. Moreover, more recent prospecting indicates newer significant coal reserves east of Many and between the present eocene field and Dorog.

[Question] What about manpower and mechanization?

[Answer] For the construction and gradual prospecting of the new mines, the labor force will be redistributed primarily from the worked out mines at Tatabany and Dorog. In addition, additional workers will be needed. This can be solved--even if with difficulty--in the affected areas of Tatabanya, Oroszlany, and Dorog. In the new eocene mines, gallery cutting, breaking, loading, coal and personnel transport will be mechanized in a complete and complex way. We will utilize the most modern installations and methods. Production processes will be harmonized by means of computerized, dispatcher-system production management. This makes it possible to achieve wide-range automation, including considerably safer water-protection and ventilation systems than in the past an advance warning of mine dangers. As a result of all these measures, the average extraction performance of the new mines will exceed that of today's mines threefold.

2153
CSO: 2500

PAX SEJM DEPUTY COMMENTS ON FOREIGN TRADE RESULTS

Warsaw SLOWO POWSZECHNE in Polish 12 Jun 80 p 1

[Editorial commentary by Z. Kom.: "Foreign Trade and the National Income"]

[Text] During the discussions in the Sejm on the results of foreign trade for 1979, it was recalled that the plan assumed a further acceleration in the development of exports, above all, through the utilization of all the reserves for increasing export production, improving the quality of the offered products, and increasing the overall effectiveness of trade exchange with foreign countries. To a great degree, these tasks were implemented.

As a result, in 1979 the exports of commodities and the revenues from the export of construction as well as from services reached a total value of 56.4 billion foreign exchange zlotys, which means an increase of 10.4 percent compared to 1978. The tasks of the plan in this area, therefore, were surpassed.

At the same time, the value of the imports of goods and services in 1979 amounted to 58.2 billion foreign exchange zlotys, that is, higher by 9.0 percent than in 1978. The plan in this field was 98.5 percent fulfilled. In effect, the debit balance of commodity turnover and the export of construction and services reached a level of 1.8 billion foreign exchange zlotys in both payments areas.

The export of commodities to the countries of the so-called dollar zone amounted to 21.1 billion foreign exchange zlotys and was higher by 12.1 percent than in 1978. The tasks of the plan, therefore, were surpassed by 2.5 percent. The value of achieved imports was in the amount of 24.3 billion foreign exchange zlotys, which constitutes a 5.7 percent increase.

Therefore, despite a significant increase in exports, a substantial debit balance in goods turnover is being maintained here. It is necessary to remember here that in 1979 trade exchange with the capitalist countries developed under disadvantageous price conditions. For this reason and also because of assortment changes, we sustained losses in the amount of approximately 1 billion foreign exchange zlotys.

Last year, a further change occurred in the structure of the disposition of industrial production. Intensive actions in this field aim at increasing the export capacities of the economy and also at increasing market production while limiting production of an investment nature. The share of export production, however, increased slightly, besides, much the same as market production.

Let us acknowledge, however, that changes in the structure of production are not easy, for they require the shifting of the production profile of a number of plants and departments to preferred designation directions. Despite this, in our judgment, the changes made to the industrial production structure are inadequate; this year the task for their further intensification was set down. This concerns especially the increasing of exports to the countries of payments area II.

The foreign trade results were a decisive factor in the fact that the national income for distribution was lower by 3.3 percent compared to 1978 and, therefore, to a more significant degree than the generated income. This was a consequence of the reduction in the debit balance in the exchange with foreign countries. Let us add that this process was started in 1977.

Computing at the constant prices of that year, the debit balance of goods and services decreased from 5.7 billion foreign exchange zlotys in 1977 to 4 billion foreign exchange zlotys in 1978 and 2.2 billion foreign exchange zlotys last year. In domestic prices (transaction) this means a reduction in national income for distribution during the last 2 years by over 40 billion zlotys.

The excess of imports over exports is still high, however, for it amounts, at domestic prices, to 35 billion zlotys and the bringing of this balance into equilibrium is expected only this year.

These relationships between foreign trade results and the size of the national income for distribution is not always, in the end, realized by the broader circles of society, nor the fact that, today, the constant increasing of exports is a dire necessity, for on this also rests the scale of indispensable imports as well as the repayment capacities of the foreign credits contracted for the development and modernization of the economy.

CSO: 2600

RECOVERY, MAXIMUM UTILIZATION OF SECONDARY ENERGY RESOURCE

Bucharest REVISTA ECONOMICA in Romanian 25 Apr 80 pp 8-10, 13

[Article by Nicolae Liciu[1]]

[Text] In comparison to fuel resources, thermal resources are recovered under more difficult conditions. This is primarily due to thermal resources diversity, their limited transportability, the greater complexity of their recovery facilities and procedures, lack of experience in creating and operating such facilities as well as the nonexistence till now of economical solutions to their utilization. This situation is demonstrated by the fact that of all thermal resources produced by industry today only approximately 55 percent is being recovered. The extent of utilization of secondary thermal resources as studied statistically in our country for several years is shown in the accompanying table. Important segments in the total volume of thermal resources are those of the heat of reaction and physical heat of products and reusable materials (39 percent), the sensitive heat of combustion gases (33 percent), and the collected heat of cooling agents (15 percent).

Over half of all thermal resources produced by industry is utilized in the enterprises for the production of steam and warm and hot water by recirculating them in technological production units as well as for other uses. The quantities recirculated within the various technological production units are counted among the recovered resources. The quantities show their influence in the reduction of the energy consumption norms of the respective production units.

In separately analyzing each of the categories of resources mentioned we note that less than half of the sensitive heat of combustion gases is recovered. This is primarily due to the content of dust and corrosive agents, the sometimes low temperatures of the gases and the failure to identify potential consumers located nearby. Such situations are to be found in Martin steel mills, cement production furnaces and in the production of carbon black in which the combusted gases contain impurities that are deposited on the surfaces of the heat exchangers thereby reducing the coefficient of thermal transfer and thus the productivity of the recuperator boilers. Furthermore, the corrosivity of combusted gases in several types of units such as incinerators of serilonitryl installations and biological purification stations in the chemical industry and tunnel furnaces in the brick and tile industry necessitates the use of special materials in the recuperator boilers and for the anticorrosive protection of certain parts of the installations themselves.

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[1] Also see article "Efficient Reclamation of Secondary Energy Resources," REVISTA ECONOMICA No 15, 1980

As is known, the economic efficiency of the heat recuperators installed on the industrial furnaces is all the greater when those resources with higher thermal potential are tuilized. For this reason, an initial phase involved plans for the use of the sensitive heat of gases in the preheating of furnace air and possibly the fuel for the production unit which created them as well, thereby increasing the overall productivity of the respective equipment. However, in this state only part of the resulting sensitive heat can be used because the temperature of the furnace air is limited by the ignition point of the fuel used. Although it provides for significant fuel savings, the accomplishment of just this utilization, customarily designated recovery stage I or primary recovery, leads to the evacuation of gases at the smokestack at relatively high temperatures of 400 to 600 degrees C. Therefore, the most advantageous utilization of the sensitive heat of combusted gases involves its continued use in the future for the production of thermal energy in the form of steam, warm and hot water, so as to cover certain energy consumption from outside the installation (i.e., recovery stage II or secondary recovery).

While taking into account the varying degrees of difficulty in these methods of utilizing the sensitive heat of furnace gases, the documents establishing production norms in our country require the priority accomplishment of primary recovery of thermal resources. Although numerous encouraging accomplishments have already been made in the utilization of sensitive heat of combustion gases, major possibilities still remain for intensifying the recovery of this type of resource that is still being lost through dissipation into the environment. Efforts are underway in the metallurgical industry that are aimed at contributing to more efficient utilization of the heat of combustion gases in furnaces producing dolomites, fire clay, petroleum coke lime and sinterized magnesite; in the process of calcining aluminum; from cupola furnaces; etc.

With the exception of a few situations, including that involving the heat of certain petroleum products recovered in the crude oil refining processes used for the reheating of raw materials, our industries have made relatively little use of the physical heat of products. This category of resources has also been identified and examined in recent years and the necessary steps for their full recovery and utilization are to be undertaken.

TABLE:

RESOURCES:	Total	Sensitive Heat of Combustion Gases	Reaction and Physical Heat of Reusable Products and Materials	Physical Heat of Used Steam	Heat Contained in Condensation	Heat Collected by Cooling Agents
TOTAL:	100	33.0	38.6	3.7	9.6	15.1
A. Recovered:	53.8	15.0	23.1	2.6	7.8	5.3
1. through reuse in factory for:	51.6	14.6	22.9	2.5	6.3	5.3
- Production of electricity	0.2	0.1	0.1	--	--	--
- Production of steam, warm and hot water:	22.7	6.7	9.6	1.7	2.9	1.8
- Recirculations within the unit, condensation back firing:	16.3	5.1	5.1	0.2	3.1	2.8
- Other uses:	12.4	2.7	8.1	0.6	0.3	0.7
2. through delivery to other factories and consumers:	1.4	--	--	--	1.4	--
- Of which were units of the Ministry of Electro-energy:	1.1	--	--	--	1.1	--
B. Unrecovered:	46.2	18.0	15.5	1.1	1.8	9.8
- Of which were reusable:	13.1	6.0	5.0	0.8	1.1	0.2

Source: Calculations based on the "Balance of Primary Energy and Fuels for the Year 1978, D.C.S.

A large part of the heat from slags lost to the atmosphere can be recovered by using installations for their dry granulation. Air at a temperature of 300 to 350 degrees C is obtained and can be used to preheat the combustion air for furnaces or for driving turbines with warm air or gases. According to certain estimates, the productivity of such installations reaches 75 to 80 percent.

We also find important reserves of physical heat of products in cement factories where the clinker exits the furnace at 900 to 1,000 degrees C.

A large quantity of heat usable for preheating combustion air or for producing warm water could be recovered by cooling to 200 degrees C in special drums. It is estimated that for every million tons of clinker 20,000 to 25,000 tons of conventional primary energy fuel can be saved in this manner.

The recovery and utilization of the heat of used steam and of condensates does not cause particular problems except in those situations where the fluids are impurified as occurs in certain processes in the chemical, cellulose and paper, food and other industries. But even in such cases there exist complex technologies for the recovery of giga-calories otherwise lost to the environment. Examples of this can be found at the chemical combines at Brazi, Pitesti and Tirnaveni where important savings of primary energy are achieved. Continued measures are necessary so that other similar production units can create installations capable of recovering the heat of steam mixed with salts of nitrogen and sulfur. Efforts must also be accelerated for the recovery of condensates in iron and steel combines and for developing the possibilities of recovering the heat of steam given off by the forge hammers of machine building factories and the heat of condensates in cellulose and paper production units, etc.

The table shows the smallest rate of recovery of thermal resources being attained with the heat collected by cooling agents. These resources have been calculated in recent years down to a final recovery temperature of 30 degrees C (earlier only to 60 degrees C).

Among efforts to better use thermal energy one also notes the measures for recovery of heat from the condensers of the turbines of Ministry of Electroenergy power plants by converting them to operate with a special vacuum or through the inclusion of special fascicles of condensation tubes. These measures were applied to 17 turbines and, in view of the resulting economic efficiency, plans have been made to extend this to 14 more turbines in 1980. Along this line one should note the efforts to convert several condensation turbines of the Doicesti, Mintia and Rovinari thermal power plants for supplying heat to certain consumers in Tirgoviste, Deva and Tirgu Jiu, respectively.

Works of research and technological engineering toward identifying optimal solutions for utilizing secondary fuel and thermal and superpressure resources through the designing of adequate recovery equipment were introduced into the plan for the purpose of accelerating the utilization of resources whose recovery is most difficult. Due to the low rate of recovery and utilization of thermal and superpressure resources, the research and studies conducted must place priority on finding technological solutions and perfecting the needed recovery equipment for these resources which represent about 4 million tons of conventional fuel annually.

The design of recovery systems for the heat of combustion gases from all industrial furnaces remains to be perfected. If it is intended that all heat be used only for preheating combustion air, as is the case in steam energy furnaces, air preheating units that will produce combustion air temperatures of over 500 degrees C must be researched and designed.

Toward the goal of complete recovery of heat for steam production in recuperator boilers such as in the convertors in steelmaking conditions must be created for reducing the continuous variation in the parameters of the steam produced and for adapting the consumers to the specifics of these supplies of thermal agent. Research and studies to determine means for the most efficient recovery and utilization of the heat from certain industrial furnaces and technological processes which give off large quantities of combusted gases into the atmosphere at temperatures below 300 degrees C generally produced after the first stage of recovery will also have to be conducted. Referred to here are some existing furnaces and technological installations, including those acquired from other countries, such as Cowper stoves for preheating air in blast furnaces, wet-process clinker furnaces, boilers and primary reformers in ammonia production lines, etc. The low thermal potential of the combusted gases in these processes can thereby also be recovered and utilized. Solutions also remain to be found for the situations in which preheaters of combustion air are installed in the path of the combusted gases in the first stage of recovery while recuperator boilers producing steam or hot water are installed downstream as in the case of heating furnaces at steel rolling mills.

Special attention must be paid to examining the possibility of increasing the temperature of combustion air in certain types of equipment in the metallurgy industry in view of the fact that for an excess of given air the efficiency of the combustion process and the quality of the heat saved are all the greater as the temperature of the fuel and of the preheated air is higher. It is at the same time necessary to take steps to reduce the volume of combustion air, especially in the older units of the chemical industry, along with installing equipment for preheating the air and fuel.

A wide range of research and studies remains to be conducted to identify the possibilities for recovering the heat contained in products and material resources in the metallurgical, chemical, construction material and electroenergy and thermal energy industries such as slabs, metallurgical slags, iron agglomerate, ingots, rolled metal products, continuous casted semiproducts, ashes and cinder from thermal power plants, residual heat from chemical facilities and from clinker production lines, etc.

Solutions are needed for the complete recovery and multiple use of condensates, for the recovery of used steam and its use in heat exchangers or steam transformers and in the production of electrical energy in low-pressure turboaggregates during the summer. Research and design agencies are called upon to make greater contributions for the recovery and utilization of heat contained in cooling agents of industrial installations.

Perhaps no other field better illustrates the need for intensifying the research and technological engineering efforts for recovering and utilizing secondary energy resources than that of the production and use of heat pumps. This has often been written about in the pages of REVISTA ECONOMICA. Nevertheless, the results are much too modest in comparison to the existing possibilities and needs. The situation is primarily due to the fact that the specialized units of the machine building industry still act slowly in producing the various types of heat pumps needed by our economy. Closer collaboration is required in this direction between the Industrial Central for Technological Equipment for Chemistry and Refineries and the ICPIAF and ICEMENERG [Electric and Thermal Power] Research and Design Institutes.

According to certain studies done under the aegis of the National Council for Science and Technology, the necessary quantity of water-to-water heat pumps with piston compressors of the type for Boghis baths, considered the easiest made and most usable, will be 600 units and those with turbocompressors with powers up to 10 Gcal/h 13 to 25 units at the national level for the period 1980 to 1985. Just one of the second type of pumps can provide the heating and domestic hot water for a city of 20,000 inhabitants or can replace the cooling towers of a chemical combine or a thermal power plant, recovering and utilizing thermal energy otherwise dissipated into the environment.

The means of utilizing heat pumps are numerous and among the most varied. They can be used in fabric production units and in the condensing of soda, nitric acid and salt in the chemical industry, in the iron and steel industry, in the cellulose and paper industry, for drying lumber or grains, in the electrical and thermal energy industries, in the distillation and condensing of juices in the food industry, in textile factories and elsewhere.

The incorporation of secondary recovery facilities with heat storage facilities is necessary insofar as the cycle of operation of certain installations that generate secondary energy sources is irregular and consequently does not coincide with the demands of the heat consumers. Such is the case with furnaces in the machine building, glass and porcelain, and refractory materials industries, etc.

Superpressure resources constitute less than 2 percent of the total volume of secondary energy resources and are principally found in the iron and steel industry.[2] The quantities resulting from the superpressures of blast furnace gas and in the extractive industry, where the resources of pressure of natural gas deposits and transports were calculated, have been identified and measured. The study of the possibilities for recovering these resources was made part of the research program. A program for the creation and installation of expansion turbines was drawn up for the recovery and use of the pressure in deposits. The manufacture of these turbines will be undertaken by the machine building units. The installation of such turbines to utilize the superpressure of blast furnace gas is planned in the blast furnaces at the Calarasi Iron and Steel Combine.

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[2] The volumes of superpressure resources for which recovery is considered efficient have a minimum limit determined by the formula (Q x H)500, where Q represents the discharge in kg/s and H the superpressure measured in bars.

This is to be done in such a way that the recovery of the secondary energy resources of superpressure and their profitable utilization through the production of electrical energy can begin simultaneously with the operational start of the respective installations. This procedure is to be similarly extended to the other furnaces with capacities greater than 1,000 cubic meters.

In this context, we should also note the studies concerning the recovery of thermal energy from certain technological processes of the chemical and cellulose and paper industries, from thermal power plants and others requiring the reduction of steam pressure and currently utilizing reduction-cooling stations. Efforts are in progress in the rubber industry to replace steam reduction-cooling installations with turbo assemblies for the simultaneous generation of thermal and electrical energy. It is particularly important that the concept of the active circular process be the basis of the research and studies to determine the recovery and utilization procedures for secondary energy resources. This process provides a unitary view of the energy producer-user relationship and the successive utilization of these resources based on the temperature level needed by the consumers. Certain technological reorganization and restructuring involving grouping of the various processes of the industrial platforms to create optimal chains of energy utilization is for this purpose surely opportune. Such high-efficiency technological energy arrangements for use in the production of nitric acid, synthetic alcohol, in the soda industry and others are being studied on an international scale.

We have predominately referred to the research and studies needed to gain full value from thermal and superpressure resources. This does not mean that research and development is no longer needed in the area of increasing the quantities of recovered fuel resources.

As a practical part of the proposed energy savings programs, particular attention must be afforded to research aimed at contributing to the manufacture of new types of recovery equipment and the improvement of their constructive parameters. Among them are furnaces with internal recovery (e.g., lined inside with porous refractory bricks), heat exchangers with thermal tubes and regenerator recuperators with rotating or fixed tables. The possibility of increasing the efficiency of heat exchange using conduits with nerves of steel with chrome-molybdenum, aluminum or alloys of brass and titanium also needs to be analyzed. The positive experience gained in other countries must also be studied. With regard to combustion gas turbines, for example, heat exchangers coupled with gas turbines and recuperator boilers could be used in a series of situations in the metallurgical, chemical and cement and construction material industries. The possibility of constructing burners with incorporated recuperators in which part of the heat is recovered and used to heat the combustive air will also have to be studied.

The following must be kept in view in efforts to increase the volume of recovery and utilization of secondary energy resources:

--the updating of equipment stocks, review of economic goals for recovery set years ago, inclusion of methodology problems in the planning and statistical evaluation of the utilization of secondary energy resources;

--the identification and elimination of waste of secondary resource through the use of simple methods and organizational and operational measures available to the economic units (e.g., improved thermal sealing and insulation, recirculation of the thermal agent, modernization of technological processes);

--the establishment of a library record of energy balances at the levels of enterprises, sections, technological production lines, unit of equipment, etc., with documentation of the quantities of afferent energy;

--the preparation of type solutions for the recovery and utilization of secondary energy resources according to the categories of technological products, production equipment and production lines, etc., by the research and design institutes and specialized university departments;

--the adaptation of the type solutions for the recovery and utilization of the various resources to the concrete conditions of the respective technological production line, production unit, platform and locality by the design offices of production enterprises with the support of the research and design institutes and the specialized university departments;

--the establishment of enterprises or sections specialized in the construction of recovery equipment and of research and design sections specialized in the recovery and utilization of secondary energy resources;

--the analysis by the specialized industrial centrals of the updated stock of secondary energy resources of their subordinate units; the coordination of the recovery and utilization studies on the basis of a plan; the determination along with the ministries and local agencies of the possibilities for placing new consumers of secondary energy resources for the purpose of creating situations of optimum utilization of the existing energy potential;

--the establishment of the necessary stock of assemblies and equipment for the recovery and utilization of these resources at the overall level of the industrial centrals;

--the better coordination of the tasks of recovery and utilization of secondary energy resources with the necessary means and continual supervision and study of the fulfillment of the plans established.

8199
CSO: 2700

ROMANIA

TECHNOLOGY TRANSFER, INVENTIONS AS SOURCES OF INCOME

Bucharest REVISTA ECONOMICA in Romanian No 20, 16 May 80 pp 7-8

[Excerpt from article by Dr Ioan Georgescu: "Growth of Incomes from Invisible Trade"]

[Text] Export of know-how is one of the fields that can loom very large in the structure of Romania's economic exchanges. The present scientific-technical revolution is generating a veritable explosion of inventions. About 400,000-450,000 of them, selected from about 800,000 patent applications, are recorded annually throughout the world.

In Romania, the OSIM [State Office for Inventions and Trademarks] receives over 3,000 patent applications a year. At the end of 1979, 17,500 national inventions had been patented and 5,000 patent applications were being processed. An increasing percentage of the portfolio of inventions is applied in the national economy, and it is now about 40 percent, or 7,000 inventions. The question naturally arises, what becomes of the other 60 percent? It would be ideal to achieve an industrial development in Romania for the highest possible percentage of the inventions reserve as an important factor for the greater competitive power of the list of exports, especially since patent holders are most often state institutions or enterprises. But the possibilities of application in Romania are limited because the discoveries ranking as firsts in the world and the breakthroughs on the scientific front are likely to be made today in the peak fields of science, where their development and industrial application are very expensive.

For example, the portfolio of inventions on OSIM's list has the following structure according to sectors of material production: I. Chemistry and the drugs and plastics industry: about one-third; II. Machine building: 28 percent; and III. Electronics and electrical engineering: 14 percent.

Complete exploitation of this major economic potential, with a lifetime now estimated at only 6-7 years (for inventions), requires more participation in the transfer of technology. De Solla Price discovered a statistically regular correlation between a nation's wealth (expressed as a proportion of the gross world product) and the extent of its scientific effort (expressed by the number of original scientific works published), which is also a quantitative indication of the contribution of science as a productive force to economic growth.

In view of the first characteristic of innovation today, namely the large volume of investments needed for development that tends to limit the possibilities of industrial application of inventions on the national economic level, and the second characteristic, namely the accelerated rate of renovation of the products and processes (for example, the progressive shortening of the lifetimes of the generations of electronic computers), extremely great flexibility and professionalism are required in marketing the rights to intellectual ownership regardless of the concrete form it takes.

Organizing and Planning Export of Inventions

Export of licenses has been planned in the USSR since 1967 in view of these requirements for promotion of exports of technology. Proposals for the draft export plan are formulated by scientific and industrial groups, research centers, study bureaus, universities and enterprises. The USSR State Committee for Inventions and Discoveries examines the proposals received through ministries and departments and submits the draft plan to the State Planning Committee after it has been analyzed by the State Committee for Science and Technology and the Ministry of Foreign Trade.

Fulfillment of the State Plan for Sales of Soviet Licenses Abroad is controlled and analyzed annually by the USSR State Committee for Inventions and Discoveries, thus contributing to promotion of exports of such intellectual products. The ministries' responsibilities for the quality and suitability of the inventions offered for export and for adoption of all measures essential to execution of the plan have been augmented recently. The founding of Licenzintorg, the specialized central office for foreign trade, lent a powerful impetus to promotion of Soviet trade in licienses.

Understanding of the nature of the license trade led to the formation of the National Research Development Corporation (NRDC) in England through the Law on Development of Inventions in 1948. It functions as an independent firm for financing research and development and covers its outlays out of the collections from sales of licenses and royalties. Its functions are development of inventions created in universities and government research institutes up to a commercially viable point and financial support of British firms in applying their own or the NRDC's inventions and in implementing projects for developing new products and technologies. In Hungary Novex, a limited liability company for developing and marketing inventions, functions as a joint stock company with Hungarian state enterprises interested in research and development and transfer of technologies to and from Hunhary as shareholders. The main purpose of the enterprise is to facilitate contact between the products of research and development activity in various sectors and its potential beneficiaries at home or abroad. Meanwhile the firm relieves the inventors of the difficult tasks of asserting rights of intellectual ownership, concentrating their energies upon creative technical-scientific work. The research and industrial units holding shares in Novex, especially those in the machine building field, sign contracts with the firm for a single project or contracts for long-term cooperation on exploitation of research and development results and industrial production of the inventions, thus expediting their practical application as far as possible through professionalism in organizing certification, selection and improvement of the inventions and new industrial processes up to the point of an industrially viable patent.

The foregoing examples, to which many others could be added, demonstrate the necessity of an enterprise specializing in development and marketing of inventions. Otherwise many technical-scientific ideas cannot be developed to the point of industrial or commercial interest by the inventor's own resources, or they are not patented until they become obsolete for lack of an organizational framework like the above-mentioned. And sometimes original technical ideas occur in units that cannot develop them industrially. In these cases the company can take over the technical and material support for further improvement of the innovation until the elements are structured that are essential to its recognition as a invention by a patent. International experience shows that all these enterprises are viable and profitable and have an important effect upon acceleration of the technical innovation throughout the national economy and upon the export potential of the know-how.

The operation of such structures in the exploitation of the technical-scientific potential has enabled Licencia, the Hungarian firm for importing and exporting intellectual products, to achieve an annual export rate of 5-7 percent of the total number of licenses registered. And in the USSR the transition to planned export of inventions and the operation of Licenzintorg, a specialized central office, doubled the supply of inventions during the Ninth Five-Year Plan and tripled the exports.

Because of dispersion of the efforts to export and import licenses among various combined export and import enterprises and their inclusion in the total value of the deliveries, no clear technological balance can be struck now on the level of the national economy, to the detriment of the patents policy.

Every invention patent should be the subject of market research to determine and select the markets to which it can be exported and consequently where it must be protected. This activity should be viewed in evolution and made permanent, for purposes of accompanying elimination from the list of protected patents those that have become obsolete and no longer warrant payment of the respective fees. In the meantime protection of invention patents on the foreign markets without any active, well-organized marketing policy,like that effected by Increst-Bucuresti, can result in deficits in the balance of payments.

In the next five-year plan the funds for financing scientific research and technological development will be up about 50 percent from the 1976-1980 plan, so that research can completely resolve not only the problems of technological development but also those of application of the research results to production. The main results of this new approach to research and development problems will include introduction and expansion of 1,300 advanced technologies in the economy. An extraordinary potential is also created here for expanding exports of know-how.

The price for which an invention can be sold is higher the more advanced the stage of development is in which it is offered, whether it is in a laboratory stage, a pilot stage, or one of semi-industrial or industrial exploitation, because the risk to the licensee is reduced proportionally. Therefore the possibility of supplying industrially verified technologies for export is an especially valuable economic potential that must be adequately exploited on the foreign market.

According to Decree No 276 of 1979 on Some Measures to Improve Foreign Trade Activity, all enterprises specializing in foreign trade in the machine building field (14 in number) now have functions of exporting and importing licenses, studies, know-how and engineering projects and other engineering services.

The following have such functions: Romagrimex Foreign Trade Enterprise in the field of agriculture and the food industry; the Geomin and Rompetrol enterprises for economic cooperation with foreign countries in the field of mines, petroleum and geology; Forexim in the field of forestry economy and construction materials; Romelectro in the field of electric power; Contransimex for construction-installation projects and installations in the field of transportation and telecommunications; and Arcom in the field of industrial and civil constructions -- in addition to the activity of the Romanian Consulting Institute.

These units are faced with the task of conducting an active policy of promoting the potential of the respective economic sectors for exporting know-how in order to achieve Romania's best possible technological balance.

5126
CSO: 2700

AERONAUTICAL RESEARCH, PRODUCTION UNITS ESTABLISHED

Bucharest BULETINUL OFICIAL in Romanian Part I No 40, 22 May 80 pp 2,3

[Council of State Decree No 165 on the Establishment of Aeronautical Research and Production Units]

[Excerpts] The Council of State of the Socialist Republic of Romania decrees: Article 1--On 15 May 1980, the following enterprises are established, subordinate to the National Center of the Romanian Aeronautical Industry in the Department for the Production of Special Equipment and Aeronautics under the direction and control of the Ministry of the Machine-building Industry:

a) The enterprise for the research and production of apparatus and equipment to be used aboard aircraft, with headquarters in Bucharest Municipality--the Pipera industrial platform--having as its object of activity scientific research, technological and construction design and the production of apparatus and equipment for use aboard aircraft;

b) The enterprise for the research and production of forged and cast parts for aviation, with headquarters in Bucharest Municipality--Baneasa industrial platform--having as the object of its activity scientific research, technological and construction design and production of cast and forged parts for aviation.

The enterprises specified in paragraph 1 are on Level I of organization and have tables of organization in accordance with Annex No 1.*

Article 2--The enterprise for the research and production of apparatus and equipment to be used aboard aircraft and the enterprise for the research and production of forged and cast parts for aviation are organized as complex research, technological engineering, and industrial production units. These units operate on the principle of economic-financial self-administration, have a juridical personality and are organized in accordance with legal norms on the organization and management of state socialist units.

*The annex is being transmitted to the institutions concerned.

CSO: 2700

ACHIEVEMENTS, PLANS FOR RIVER TRANSPORT VIEWED

Bucharest FLACARA in Romanian 8 May 80 p 5

[Interview with Iulian Simionescu, director of the "Navrom" Enterprise for River Navigation in Galati, by Dumitru George]

> [Text] Iulian Simionescu, director of the "Navrom" Enterprise for River Navigation in Galati; 48 years old, born in Namoloasa (Galati County); graduate of the Faculty of Ships and Ports of the Galati Polytechnical Institute; engineer in "Navrom" since 1956; director of the enterprise since 1966. One year later it won first place in the competition among all the units belonging to the Ministry of Transportation and Telecommunications; decorated with the Order of Labor 3rd Class and the Star of the Republic 4th Class.

[Question] Comrade Simionescu, you will soon be entering your 15th year as director of "Navrom" Galati. In that time, as they say, a lot of water has flowed in the Danube. But is that all?

[Answer] As you well know, this period has coincided with the most fruitful years of the country, with unprecedented development of the Romanian economy, of all its branches, including river transport. The enterprise which I head has grown by giant steps, passing from steamships to an ultramodern fleet of great capacity and power, especially after the secretary general of the party, Comrade Nicolae Ceausescu, pointed out that as many goods as possible were to be transported by river, thus making the best use of a natural endowment of our country, so to speak. An extensive program of development of the river fleet and modernization of the [illegible] was undertaken and is still far from being completed. We have approximately 600 river boats, as well as modern quay and other equipment to facilitate the work in the ports, completely mechanized facilities for loading and unloading of the ships, for a total value of fixed assets which exceeds 5.4 billion lei. Five specialized secondary schools have been established, in Tulcea, Galati, Braila, Giurgiu and Drobeta-Turnu Severin, from which the future cadres for oceangoing or river transport activities are recruited. For the next few years, 3 or 4 at the most, plans call for the systematization of the commercial port at Galati, as well as the construction of a new mineral port to serve the iron and steel combine, the opening in Tulcea of a new commercial port and a mineral port, modernization of the port in Braila specializing in import-export transportation, and many other things. An additional 140 new ships will go into operation, including 2,000 and 3,000-ton barges, moved by modern tugboats and pusher tugs equipped with Romanian equipment. We are especially concerned with encouraging the most modern possible cargo handling facilities in order to increase the productivity of labor and facilitate it, in order to operate at a pace which is truly up to the world level.

[Question] What position does your enterprise and river transport in general occupy within the framework of our system of transporting cargo and passengers?

[Answer] Our activity, although relatively small when compared to that of the maritime fleet, has its importance. We transport cargo and passengers along the entire Romanian Danube, from Sulina to Bazias, while the import-export activities extend as far as Regensburg in the FRG. We take lumber and lumber products, rolled metal products, light industry products, chemical products, cement and grain and we bring back minerals, coke, coking coal, bauxite, certain metals and so forth. Several years ago this activity did not amount to more than 5 million tons; today we transport about 9 million tons on the Danube and in the next 3 years, as stipulated in the high-level directives of the party, it is supposed to reach 22.5 million tons of transport on the Danube. For travelers there are 12 permanent passenger routes, but in the summer the National Office for Tourism rents many more boats to use for excursions. From Sulina to Bazias there are 22 ports along the Romanian Danube, maritime river ports--those downstream from Braila, and strictly river ports--those upstream. We have, in other words, an enterprise which extends for 1,072 kilometers, in which several thousands of people work, sailors, dock workers, maintenance and repair mechanics, all of them organized in an orderly system within the framework of which the most important work is the relationship between the fleet and the ports, for the good progress of the two aspects of our activities, the transportation itself and the loading and unloading in the ports. The collective is young and thus capable of better results. Nevertheless, for 1979 we exceeded the planned profit by approximately 30 million lei.

[Question] Tell us something about the Danube. What role does our ancient river play in the economy of our country today and what role will it have in the future?

[Answer] Although it has a somewhat strange position, the Danube has proven to be a navigable waterway of great importance to the Romanian economy. Certainly, it has flowed through this area for a long time. But it is evident that in recent years we have begun to regard it with much more attention! The navigable waterway has existed for a long time, but we did not have very much to transport on it. Today, however, the vigor of the Romanian economy pulsates in the ports of the Danube, as well as in the seaports, of course. I would say that the pulse of the ports is connected most closely with the development of the national economy. These are ports which have purely and simply been reborn, such as Sulina, Calarasi, Cernavoda or Orsova, where the pulse of our continuously growing economy can be felt! Thus, it can be said that the Danube has a great future. I am thinking about the industrial development of all the countries adjacent to the river, as all the areas of the country have developed now, I am also thinking of the growth of industrial shipping on the Danube through the opening and modernization of numerous shipyards. The projects which appeared to be so bold not long ago with regard to planning to make the Danube a navigable waterway all year round, have now begun to come to life. The way to the sea will be considerably shortened by the opening of the Danube-Black Sea Canal. The Olt will become partially navigable, while, as is known, we will build another canal between Bucharest and Giurgiu, transforming the capital into...a river port. Thus, through the construction of the dams for the Iron Gates II and Nikopol-Turnu Magurele hydroelectric power plants, as well as the one for Cernavoda, which connects the Danube to the canal, our ancient river will become navigable all year, at a constant depth, nearly a "lake" on which hundreds of vessels will sail loaded with cargo and passengers, a form of transport which all the world recognizes as more profitable than any other. Thus, as I said, the Danube has not only a past, but a great future as well.

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TULCEA SHIPYARD REPLACED BY NEW ENTERPRISE

Bucharest BULETINUL OFICIAL in Romanian Part I No 40, 22 May 80 pp 1, 2

[Council of State Decree No 164 on the Establishment of the Tulcea Naval Construction and Technological Equipment Enterprise]

[Excerpts] The Council of State of the Socialist Republic of Romania decrees: Article 1--The Tulcea Naval Construction and Technological Equipment Enterprise, with headquarters in Tulcea Municipality, Tulcea County, is established as of 1 April 1980. The enterprise has as its object of activity the construction and repair of ships intended for ocean fishing as well as of other types of vessels which fall within the technological sphere of the enterprise in accordance with the needs of the national economy, the manufacture of technological equipment for the chemical industry, the processing of crude oil, pulp, paper, and cardboard, machines and technological equipment for the metallurgical industry, spare parts for machines and technological equipment for the metallurgical industry and enriched damp sand and coated sand for foundries.

The Tulcea Naval Construction and Technological Equipment Enterprise is established by the reorganization of the Tulcea naval shipyard which is being closed down. This enterprise also includes the following investment projects: the Tulcea Chemical and Metallurgical Equipment Enterprise and the Caraorman Sand Quarry.

CSO: 2700

INVESTMENTS IN FIXED ASSETS, JANUARY-FEBRUARY 1980

Belgrade PRIVREDNI PREGLED in Serbo-Croatian 27 Mar 80 p 4

[Article by R. Vuksanovic: "Trend Toward Increased Investment in Fixed Assets Continues"]

[Text] The tendency of investments toward growth that was starting to appear last year is continuing at the beginning of this year. Investments in fixed assets grew 37 percent in January and 26 percent in February, as compared to the same period last year, amounting to a cumulative increase of 33 percent. When the rate of increase is corrected for the increase of prices of construction materials, equipment, and services in the building industry and science, the real increase amounts to about 17 percent.

The large increase in January was affected by the payments made for the work performed at the end of 1979. This is especially true of the payments made from banking sources, whose increase in January was nearly double that of February. That was due to the limits on the increase placed for 1979--banks were unable to pay all the obligations due in December, transferring some of those into this year.

When sources of investments are analyzed, it becomes evident that unlike in preceding years, at the beginning of 1980 investments in fixed assets from the industrial sources grew faster than those from banks. In the first 2 months, the increase in paid investments from organizations of socialized labor (industrial organizations) has been 34 percent, banks 22 percent, independent interest organizations 77 percent, and from the resources of sociopolitical organizations 46 percent, when compared to the same period last year. Among sociopolitical organizations the increase of investments was more rapid from opcina and federal sources, with smaller increases coming from the republics and provinces.

The slowdown in bank investment increases is the result of energetic measures that were taken in 1979 and at the beginning of this year in order to decrease the high rate of spending of banking funds on this type of consumption. Those measures consist of limiting investment growth and narrowing banks' ability to use primary issue for financing investments.

Table 1. Investments in Fixed Assets (In Millions of Dinars)

	Feb. 1980	Jan, Feb 1980	Feb 1980 Feb 1979	Feb–Jan 1980 Feb–Jan 1979
Total Investments	21,277	54,295	126	133
Industrial OSL's *	7,867	18,534	133	134
Nonindustrial OSL's	1,911	5,449	154	169
Ind. Interest Organizations	766	2,047	146	177
Banks	9,257	26,174	111	122
Investments Through Banks	965	2,077	166	151
Sociopolitical Org.	511	1,014	146	146
From Among Those:				
Opcinas	241	442	170	155
Republics and Provinces	220	420	135	136
Federal Government	50	152	109	150

* Organizations of Socialized Labor

Furthermore, the Law for Special Conditions for Approval of Credit for Investments precluded investments without down payment, and at the same time the requirements for credit were tightened for projects outside of the industrial field, and in fields whose activities are based in importing.

Disproportional payments from various sources resulted in the change of the investor structure, that is, bank participation has dropped from 50 percent of all investments in the first 2 months of 1979, to 46 percent in the first 2 months of 1980, thereby increasing the participation of various other organizations. However, in spite of that, the banks still finance nearly half of all investments, while the participation of industrial enterprises is about 34 percent.

Housing has the greatest share of bank investments, since payments in this field were 6.3 billion dinars, which is an increase of 64 percent when compared to the first 2 months of 1979.

The economic structure of investments shows that except for housing, investments in industrial objects are increasing faster than any other. This is the result of the measures taken to narrow investment possibilities outside of the economy, and it can be expected that this tendency would continue on the long-term basis.

The investment increase among various republics and provinces was not proportional. The increase in Bosnia and Hertzegovina was 21 percent, in Montenegro 99 percent, in Croatia 34 percent, in Macedonia 40 percent, in Slovenia 33 percent, and in Serbia 29 percent. Within Serbia itself, the increase outside of the provinces was 35 percent, in Kosovo 56 percent and in Voivodina 9 percent. The exceptionally high increase in Montenegro is the result of investments in reconstruction of damage done by the catastrophic earthquake of April 1979.

9339
CSO: 2800

ELECTRIC POWER CAPACITY, NEEDS, PLANS

Belgrade EKONOMSKA POLITIKA in Serbo-Croatian 14 Apr 80 pp 23-24

[Text] In the electric power industry, preparations for approval of the development plan for 1981-1985 are proceeding along two seemingly separate and independent tracks. On the one hand, federal, republic and provincial institutes for planning and associations of electric power organizations, such as the Association of Yugoslav Electrid Power Companies, are preparing entire studies, involving in them several institutes, beginning with the current world energy situation and including evaluations of the growth in consumption of electrical energy and the possibilities for building new electric power plants, while on the other hand, in practice, electric power organizations are building most of the new installations that will be going into service in the next 5 years.

At the beginning of this year, 11 hydroelectric power plants, 16 thermal power plants, 1 nuclear electric power plant and installations for the transmission network were in construction; all projects had a total calculated value of 150 billion dinars. Although fully half of these installations have been carried over from the preceding intermediate plan due to delays in construction and with significantly greater investments, it cannot be anticipated that some new and other installations will be erected in the following 5 years, regardless of the results and recommendations that may come from studies and analyses. The first estimates of the investments needed in the period 1981-1985 indicate the need for a total amount of 200 billion dinars. Furthermore, it is almost certain that this sum will be reached for the installations that have already been started before they begin operations. It must also be noted that about 1,400 MW of installed power that is necessary for the next intermediate period is not even under construction

Lags or Corrections of the Plan?

The agreement on the development of the electric power industry in the period 1976-1980 projected total construction of 9,490 MW of new power plants, but it also estimated that 7,900 MW would suffice for the planned growth in electric energy consumption. It foresaw that in 1980 consumption would reach 65-70 billion KWH, with an annual rate of increase of between 10 and 12 percent. The plan also specified construction of 3,735 kilometers of high-tension, 380 KV long-distance transmission lines and transformer stations with total power of 15,600 MVA, as well as mine capacities for 27 million tons of coal for the needs of new thermal power plants, and a uranium mine. So that new thermal power plants using liquid fuels could operate, annual supplies of 3 million tons of heavy oil were to be secured.

By the beginning of this year, however, a total of only 4,175 MW capacity in new electric power plants had been placed in operation, which does not represent half of the planned volume, and can provide but 53 percent of estimated needs. The long-distance transmission line plan was 67 percent complete, while 46 percent of the transformer-station capacity and about half of the planned coal mining capability had been completed. In practical terms, everything else has been carried over to the coming intermediate plan period. During this year, it is expected that new installations with 759 MW capacity will be placed in operation, but for now it is known that among the more important installations that will provide new quantities of electrical energy only 330 MW will be provided by the Kostolac and Oslomej thermal power plants.

When in such an important sector as electrical energy, the five-year plan for development is only 50 percent completed, or a little more than half, it is normal to expect great difficulties and problems in supplying consumers with electrical energy. This is the more true since in preparing the plans it was known that the electric power industry did not have reserve capabilities at its disposal, and that practically every more serious breakdown at major installations threatened restrictions in consumption. Precisely for this reason the plan was prepared so that more new electric power plants would be built than the projected rate of increase in consumption would require. Although the production of electrical energy is not accomplished without difficulties, and although there are occasional temporary, particularly seasonal, reductions in power, there are no great shortages of electrical energy.

There are two basic reasons for this. The first is found in consumption: instead of the 65-70 billion KWH projected for this year in the intermediate plan, the electrical energy balance for 1980 (which has not yet been adopted finally) calls for 59 billion KWH. Instead of the planned growth rate of 10-12 percent for the 5 years, an average growth rate of consumption of about 8 percent has been recorded. The other reason is found in the exceptionally favorable hydrological conditions that with the exception of one or two seasons have made possible markedly higher production by hydroelectric power plants than even the most optimistic planner whuld have dared to anticipate. That dependence on hydroelectric power, about 50 percent of total energy is produced by hydroelectric power plants, is at the same time a great risk, for a dry year would reduce production by 5-6 billion KWH and bring undesirable consequences.

Analysts have calculated that this year consumption of electrical energy in Yugoslavia will amount to 2,550 KWH per capita. Often the level of electrical energy consumption is taken as a measure of the level of development of a country; therefore, it is instructive to note that that level of consumption was reached 15 years ago in Austria, Belgium, France, Holland, and the USSR, and 20 years ago in the FRG, Finland, and Great Britain while Sweden, the United States, Switzerland and some other countries attained that level of consumption much earlier.

Power Plants Under Construction

Thermal Power Plants from the 1876-1980 Plan

At Gacko, 300W
Bitola I, 210 MW
Kosovo B I, 339 MW
Plevlja, 210 MW
Kosovo B II, 339 MW
Nuclear Plant at Krsko, 664 MW
Ugljevik, 300 MW
Bitola II, 210 MW
Turbine and Heating Plant, Ljubljana, 50 MW
Turbine and Heating Plant, Novi Sad, 135 MW
Obrenovac, B.I. 600 MW
Turbine and Heating Plant, Rijeka, 45 MW

New Installations

Kakanj IV, 230 MW
Turbine and Heating Plant, Tuzla, 90 MW
Obrenovac B II, 600 MW
Drmno I, 350 MW
Drmno II, 350 MW
Plomin, 200 MW
Turbine and Heating Plant, Zrenjanin, 135 MW
Turbine and Heating Plant, Pancevo, 135 MW
Trbovlje III, 150 MW

Hydroelectric Power Plants: from the 1976-1980 Plan

Bocac 110 Mw
Salakovac, 140 MW
Grabovic, 113 MW
PAHE Bajina Basta, 600 MW

New Installations

Cakovac, 82 MW
Golubici, 7 MW
Salakovac, 3rd stage, 70 MW
Mostar, 64 MW
Zlatica, 55 MW
RHE Obrovac, 276 MW
Solkan, 21 MW
Andrijevo, 149 MW
Perucica, 8th stage, 62 MW
Mavcic, 38 MW
Zavoj, 80 MW
Visegrad, 304 MW
Derdap II, 216 MW
Pohorje PAHE, 140 MW

How Can the Situation Be Changed?

At the beginning of this year, total installed capaiity of electric power plants in Yugoslavia amounted to 13,320 MW. A preliminary projection indicates that in the coming 5 years another 4,401 MW of capacity held over from the current intermediate plan, and a new 8,134 MW capacity in new construction, will be completed. With the grid of long-distance transmission lines for 380, 220 and 110 Kw, and the corredponding transformer stations, a solid technical base has been created for the operations of a major technological electrical power system. The former restrictions and limitations of installed electric power plant capacity, and especially the potential for transmitting electrical energy to all parts of the country, are gradually being overcome and the obstacles to cooperation between the electrical energy organizations of the republics and provinces are being eliminated.

It is often stressed that electrical energy organizations function in a single, unified Yugoslav technical and technological system, but here one should be careful not to mention commercial or economic cooperation. Interchange of electrical energy between republic and provincial electrical energy organizations, either on the basis of long-term agreements, investments in the construction of electric power plants outside of a particular organization's region, or temporary contracts, are rather well developed (in that manner nearly a quarter of total electrical energy production is marketed). On the other hand, the potential of a major technical system is still utilized only slightly. Beginning with planning and construction of new installations (where the possibilities for more rational behavior and savings are the greatest), and extending to the use of completed installations or systems for managing electrical energy installations (with significant economic effects), greater cooperation is needed.

The existing relationships between the electrical energy organizations of the republics and provinces are practical obstacles to the creation of a major electrical energy technical system, with all the advantages that could be gained by operations in such a system. The operations and functions of the Yugoslav electrical energy system are regulated by the Self-Management Agreement on Joint Operations and corresponding federal, republic and provincial regulations. The Self-Management Agreement on the Joint Operations of Electrical Energy Organizations was adopted in 1971. It is considered that that basic act has been successfully applied for years, but that certain of its provisions are obsolete, on the one hand, due to changing conditions and changes that have come through legal and self-management regulations in the republics and provinces, and on the other hand, by the self-management and technical development of the electrical energy system.

Last year an attempt was made to replace that self-management agreement on joint operations by electrical energy organizations with a new one that would bring in the technical and technological changes that have occurred in the meantime, as well as the socioeconomic relationships that have been created. The relationships could not, however, be resolved due to varying interests that have arisen and differences in the self-management organizational structures of electrical energy in the republics and provinces, as well as disharmony in socioeconomic relations established by new organizations. In simple terms, the electric power industry is treated as a component part of the economy in some places, with a certain specific mission, while elsewhere it is regarded as some form of public service. If to all of this is added the fact that such basic elements of energy policy as the pricing system and price parity for individual types of energy, responsibility for deciding such matters, and a system of extended capital accumulation in the energy sector, still await formulation, it is clear that the electric energy organizations, even with the best of will, cannot eliminate all the obstacles to the creation of a major technical system for electrical energy solely by self-management agreement.

Not only domestically but in a broader perspective, the general status of energy, the problems and dilemmas that the energy crisis has imposed on the modern world direct the electric power industry to discover more rational solutions, and to develop greater cooperation and joint actions. Along with completion of the transmission network, it is necessary to conceive and gradually build a system of technical and commercial management of electrical energy installations, to establish dispatching centers, and to establish communications for the exshange of information and the automatization of these processes. In the construction of new installations for the production of electrical energy, while relying on domestic energy resources, we must build thermal power plants with high installed capacities in the most favorable locations, and hydroelectric power plants on river systems that encompass several sociopolitical communities.

If it is apparent from the list of installations under construction that in the next 5 years there is little chance that decisions will be changed, it should also be realized that decisions that will be made during this period will define the installations, policies and prices for energy for the coming 10 to 20 years. Taking into consideration the 5 to 7 years necessary for the construction of installations and the two to three decades for which they are used, it is obvious that the decisions being made are for the future. Precisely for that reason, it would seem that the efforts of electrical energy organizations to eliminate present obstacles and establish new relationships should be joined by equal efforts of the republics and provinces.

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